

HSBC HOLDINGS PLC
Form 6-K
August 03, 2016

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of
the Securities Exchange Act of 1934

For the month of August 2016

Commission File Number: 001-14930

HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes..... No

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-.....).

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This Report on Form 6-K with respect to our Interim Financial Statements and Notes thereon for the six-month period ended June 30, 2016 is hereby incorporated by reference in the following HSBC Holdings plc registration statements: file numbers 333-92024, 333-103887, 333-104203, 333-109288, 333-113427, 333-127327, 333-126531, 333-135007, 333-143639, 333-145859, 333-155338, 333-158065, 333-162565, 333-170525, 333-176732, 333-180288, 333-183806, 333-197839, 333-202420 and 333-209719.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 6-K and that it has duly caused and authorized the undersigned to sign this interim report on its behalf.

HSBC Holdings plc

By: /s/ Iain J Mackay

Name: Iain J Mackay

Title: Group Finance Director

Dated: 3 August 2016

Connecting customers
to opportunities

HSBC aims to be where the growth is, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

As a reminder
 Reporting currency
 We use US dollars.
 Adjusted measures
 We supplement our IFRSs figures
 with adjusted measures used by management internally. These
 measures are highlighted with the following symbol: u
 In this document we use the
 following abbreviations to refer
 to reporting periods.
 1H16 First half of 2016
 2H15 Second half of 2015
 1H15 First half of 2015
 Ø For a full list of abbreviations
 see page 155.

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Cover image:
 Tsing Ma Bridge carries road and rail traffic to Hong Kong International Airport and accommodates large container ships. At HSBC, we help customers across the world to trade and invest internationally.

Cautionary statement regarding forward-looking statements

This Interim Report 2016 contains certain forward-looking statements with respect to HSBC's financial condition, results of operations and business.

Statements that are not historical facts, including statements about HSBC's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'targets', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

Written and/or oral forward-looking statements may also be made in the periodic reports to the US Securities and Exchange Commission, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC's Directors, officers or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These include, but are not limited to:

Changes in general economic conditions in the markets in which we operate, such as continuing or deepening recessions and fluctuations in employment beyond those factored into consensus forecasts; changes in foreign exchange rates and interest rates; volatility in equity markets; lack of liquidity in wholesale funding markets; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks' policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries; adverse changes in the funding status of public or private defined benefit pensions; and consumer perception as to the continuing availability of credit and price competition in the market segments we serve.

Changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities;

initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; changes in bankruptcy legislation in the principal markets in which we operate and the consequences thereof; general changes in government policy that may significantly influence investor decisions; extraordinary government actions as a result of current market turmoil; other unfavourable political or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for our products and services; the costs, effects and outcomes of product regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non-bank financial services companies, including securities firms.

Factors specific to HSBC, including our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques). Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; our success in addressing operational, legal and regulatory, and litigation challenges, notably compliance with the US DPA; and the other risks and uncertainties we identify in 'top and emerging risks' on pages 22 and 23.

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Certain defined terms

Unless the context requires otherwise, 'HSBC Holdings' means HSBC Holdings plc and 'HSBC', the 'Group', 'we', 'us' and 'our' refer to HSBC Holdings together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. When used in the terms 'shareholders' equity' and 'total shareholders' equity', 'shareholders' means holders of HSBC Holdings ordinary shares and those preference shares and capital securities issued by HSBC Holdings classified as equity. The abbreviations '\$m' and '\$bn' represent millions and billions (thousands of millions) of US dollars, respectively.

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Overview

Key highlights

We are one of the most international banking and financial services organisations in the world.

For the half-year to
30 June 2016

Reported profit
before tax
(1H15: \$13.6bn)

\$9.7bn

Group

Our operating model consists of four global businesses and five geographical regions supported by 11 global functions.

Adjusted profit
before tax
(1H15: \$12.6bn)

Performance highlights for 1H16 u

\$10.8bn

– Reported profit before tax fell by \$3.9bn or 29%, reflecting a \$3.5bn fall in revenue. In addition, reported results included a \$0.8bn impairment relating to the goodwill of Global Private Banking ('GPB') in Europe.

– On a reported basis, revenue decreased by \$3.5bn or 11% and loan impairment charges increased by \$0.9bn. This was partly offset by lower operating expenses of \$0.6bn or 3%.

– Adjusted revenue fell by 4%, with continued momentum in Commercial Banking ('CMB') more than offset by Global Banking and Markets ('GB&M') and Retail Banking and Wealth Management ('RBWM'), reflecting challenging market conditions.

– Adjusted operating expenses fell by 4%, reflecting the continuing effects of our cost-saving initiatives and focus on cost management. This was despite continued investment in regulatory programmes and compliance as well as inflationary impacts.

– Through management initiatives we managed to further reduce our risk-weighted assets ('RWAs') by \$48bn, and therefore the amount of capital we are required to hold.

At 30 June 2016

Risk-weighted
assets

(31 Dec 2015:
\$1,103bn)

\$1,082bn

Common equity
tier 1 ratio

(31 Dec 2015:
11.9%)

12.1%

Reported revenue

(1H15: \$32.9bn)

\$29.5bn

Total assets

(31 Dec 2015:
\$2,410bn)

\$2,608bn

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Key highlights

7.4%	-0.5%	\$0.20
Return on equity	Adjusted jaws (see page 21)	Dividends per ordinary share in respect of 1H16

Our global businesses

Retail Banking and Wealth Management ('RBWM')	Commercial Banking ('CMB')	Global Banking and Markets ('GB&M')	Global Private Banking ('GPB')
We help millions of people across the world to manage their finances, buy their homes, and save and invest for the future. Our Insurance and Asset Management businesses support all our global businesses in meeting their customers' needs.	We support approximately two million business customers in 55 countries with banking products and services to help them operate and grow. Our customers range from small enterprises focused primarily on their domestic markets, through to large companies operating globally.	We provide financial services and products to companies, governments and institutions. Our comprehensive range of products and solutions, across capital financing, advisory and transaction banking services, can be combined and customised to meet clients' specific objectives.	We help high net worth individuals and their families to grow, manage and preserve their wealth.
Reported profit/(loss) before tax \$2.4bn	\$4.3bn	\$4.0bn	\$(0.6)bn
Adjusted profit before tax \$2.8bn	\$4.1bn	\$4.1bn	\$0.2bn
Risk-weighted assets \$176.1bn	\$414.8bn	\$437.1bn	\$18.5bn

Geographical regions

Key

- | | |
|---------------------------------|------------------|
| 1. Europe | 4. North America |
| 2. Asia | 5. Latin America |
| 3. Middle East and North Africa | |

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Analysis by geographical region
Half-year to 30 June 2016

Europe

Profit before tax

Reported profit before tax of \$1.6bn was \$626m lower than 1H15, primarily driven by lower revenue, higher operating expenses and higher loan impairment charges and other credit risk provisions ('LICs'). The effect of currency translation and the net movement in significant items had a favourable effect of \$112m on the movements in reported profit before tax.

Excluding these items, adjusted profit before tax of \$1.9bn was \$738m lower than 1H15, driven by lower adjusted revenue and higher adjusted LICs, partly offset by lower adjusted operating expenses.

Revenue

Reported revenue fell by \$347m, which included the adverse effects of currency translation movements of \$523m and the net favourable effect of \$942m relating to significant items, which included:

• A gain on the disposal of our membership interest in Visa Europe of \$584m in 1H16; and

• Favourable fair value movements on our own debt designated at fair value from changes in credit spreads of \$1.1bn.

This compared with favourable movements of \$512m in 1H15.

Excluding these factors revenue decreased by \$766m, primarily in our GB&M and RBWM businesses. This was partly offset by an increase in revenue in CMB due to both lending and deposit balance growth. In addition, within Other, we recorded higher favourable fair value movements relating to the economic hedging of interest and exchange rate risk on our long term debt and related derivatives.

In GB&M, the reduction in revenue was mainly in Markets in the UK, notably in Equities and FX reflecting reduced client activity as a result of market volatility. In addition, revenue in both Legacy Credit and Balance Sheet Management decreased compared with 1H15. In our RBWM business, revenue was lower in France. This was mainly in life insurance manufacturing and primarily reflected adverse market updates.

LICs

Reported LICs were \$110m higher, primarily in CMB. This increase was primarily in the UK (up \$189m), notably in to the oil and gas sector, as well as in Spain (\$48m), mainly in the construction sector. In addition, in GB&M we recorded a small net release of allowances in 1H16, compared with a net charge relating to Greek exposures in 1H15. This was partly offset by lower net releases on available-for-sale asset-backed securities.

Operating Expenses

Reported operating expenses increased by \$166m, which included favourable effects of \$387m from currency translation and the net adverse effect of \$709m relating to significant items. These included:

• An impairment of \$800m relating to the goodwill of Global Private Banking in 1H16;

• Settlements and provisions in connection with legal matters of \$136m, compared with \$780m in 1H15; and

• Costs to achieve of \$774m in 1H16.

Excluding these factors, operating expenses decreased by \$156m, which included an increased credit relating to the prior year bank levy charge, as well as lower IT costs and lower staff costs across all global businesses. This was partly offset by a marginal rise in CMB due to an increase in smaller customer remediation provisions, which are not considered significant items.

Asia

Profit before tax

Reported profit before tax of \$7.2bn was \$2.2bn lower than in 1H15, driven by lower revenue in RBWM and GB&M, coupled with higher LICs in GB&M, partly offset by lower operating expenses. The effect of currency translation and the net movement in significant items had an adverse effect of \$1,614m on the movements in reported profit before tax.

Excluding these items, adjusted profit before tax of \$7.2bn was \$631m lower than in 1H15, driven by lower adjusted revenue and higher adjusted LICs, partly offset by lower adjusted operating expenses.

Revenue

Reported revenue fell by \$2.3bn, which included the adverse effects of currency translation movements of \$252m and net adverse effect of \$1.4bn on significant items, including the non-recurrence of a gain on partial sale of our shareholding in Industrial Bank of \$1.4bn in 1H15.

Excluding these factors, revenue decreased \$708m, primarily in our RBWM business. This was mainly in Wealth Management in Hong Kong and reflected lower revenue from securities brokerage and fund sales compared with a strong 1H15. In addition life insurance manufacturing revenue also fell from adverse market updates. Within RBWM, these decreases were partly offset by wider deposit spreads, and an increase in deposit balances. In GB&M revenue was also lower, mainly in Markets from lower Equities revenue due to a fall in market turnover and, in Foreign Exchange due to reduced client activity.

LICs

Reported LICs rose by \$98m, which included the favourable effect of currency translation of \$8m. Excluding this, LICs increased by \$106m, primarily in GB&M reflecting higher individually assessed LICs in Australia, notably in the metals and mining sector. By contrast, 1H15 included a partial release of an individually assessed charge in Hong Kong.

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Operating Expenses

Reported operating expenses fell by \$212m, including the favourable effects of \$144m of currency translation and the net adverse effects of \$106m from significant items, which included costs to achieve of \$114m in 1H16.

Excluding these factors, operating expenses decreased by \$174m, driven by cost management initiatives which more than offset the effects of wage inflation and investment as we aim to grow our business in mainland China's Pearl River Delta and the ASEAN region.

Middle East and North Africa

Profit before tax

Reported profit before tax of \$985m was \$84m higher than in 1H15, driven by lower operating expenses and higher revenue. The effect of currency translation and the net movement in significant items had an adverse effect of \$24m on the movements in reported profit before tax.

Excluding these items, adjusted profit before tax of \$983m was \$108m higher than in 1H15, driven by higher adjusted revenue and lower adjusted operating expenses.

Revenue

Reported revenue rose by \$45m, which included the adverse effects of currency translation of \$33m and the net favourable effect of \$2m on significant items.

Excluding these factors, revenue rose \$76m, primarily in Egypt in GB&M and CMB. In our GB&M business revenue increased from higher Treasury bill balances and improved GLCM performance. In CMB, revenue increased from balance growth and wider spreads in our lending portfolio as well as from wider deposit spreads. In addition, revenue increased in the UAE, primarily in GB&M and RBWM, partly offset by decreases in CMB. In RBWM these increases were driven by the gain on disposal of HBME's shareholding in Rewards Management Middle East Ltd (RMMEL).

LICs

Reported LICs were \$9m higher, primarily in RBWM, as 1H15 included a net release of allowances on our mortgage portfolio, while 1H16 included an increase in charges following a rise in delinquency rates. This was partly offset by a fall in CMB from higher recoveries coupled with lower customer specific impairments.

Operating Expense

Reported operating expenses fell by \$65m, including the favourable effects of \$9m of currency translation and net adverse effects of \$2m of significant items.

Excluding these factors, operating expenses decreased by \$58m primarily in the UAE, notably staff costs. This reflected the impact of cost-saving initiatives.

North America

Profit before tax

Reported profit before tax of \$50m was \$640m lower than in 1H15, driven by higher LICs in our GB&M and CMB businesses and lower revenue primarily in the Consumer and Mortgage Lending ('CML') run-off portfolio in RBWM. The effect of currency translation and the net movement in significant items had an adverse effect of \$420m on the movements in reported profit before tax.

Excluding these items, adjusted profit before tax of \$684m was \$220m lower than in 1H15, driven by higher adjusted LICs partly offset by lower adjusted operating expenses.

Revenue

Reported revenue declined by \$174m, which included the adverse effects of currency translation movements of \$61m and a net adverse effect of \$83m on significant items, which included:

• Adverse fair value movements on non-qualifying hedges of \$109m in 1H16, compared with adverse movements of \$21m in 1H15; and

Excluding these factors, revenue was broadly in line with 1H15. Lower revenue in our RBWM US CML portfolio reflecting a reduction in average lending balances from the continued run-off and loan sales was broadly offset in GB&M by increased interest income from higher yields on reverse repos and securities, and increased trading income in Canada. In addition, residential mortgage balances increased in RBWM.

LICs

Reported LICs rose by \$464m, which included the favourable effect of currency translation of \$3m. Excluding this, LICs were \$467m higher, driven by an increase in both our GB&M and CMB businesses. In GB&M, higher individually assessed LICs were mainly in the US and primarily related to a significant specific charge on a mining related corporate exposure, as well as charges in the oil and gas sector. In CMB, the increase was mainly in Canada and related to specific oil and gas sector exposures. In addition, collectively assessed provisions increased in our RBWM US CML portfolio.

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Operating Expenses

Reported operating expenses were broadly in line with 1H15, including the favourable effects of \$32m of currency translation and net adverse effects of \$310m of significant items, which included:

• Settlements and provisions in connection with legal matters of \$587m in 1H16 compared with \$364m in 1H15; and
• Costs to achieve of \$121m in 1H16.

Excluding these factors, operating expenses decreased by \$282m, primarily due to lower staff costs and a reduction in Risk and IT costs.

Latin America

Profit before tax

Reported loss before tax of \$55m was \$487m lower than the profit before tax 1H15. This was driven by lower revenue and higher LICs primarily in Brazil, partly offset by lower operating expenses. The effect of currency translation between the periods and the net movement in significant items had an adverse effect of \$213m on the movements in reported profit before tax.

Excluding these factors, adjusted profit before tax of \$27m was \$274m lower than in 1H15, driven by higher adjusted LICs, partly offset by higher adjusted revenue.

Revenue

Reported revenue fell by \$633m, including the adverse effects of \$758m of currency translation and \$77m of net adverse movements on significant items, including:

• Adverse movements of \$35m on DVA, in 1H16 compared with favourable movements of \$13m in 1H15; and
• Adverse movements of \$32m relating to the disposal of our operations in Brazil in the current period.

Excluding these factors, revenue rose by \$202m, notably in Mexico and Argentina, partly offset by a decrease in Brazil. Both Argentina and Mexico benefited from wider deposit spreads in RBWM and CMB due to higher interest rates, while deposit balances also rose in Argentina. In addition revenue in Mexico increased from higher lending balances across all businesses. By contrast revenue decreased in Brazil reflecting the economic slowdown.

LICs

Reported LICs rose by \$246m, which included the favourable effect of currency translation of \$136m. Excluding this, LICs rose by \$382m, due to an increase in collectively assessed LICs. This was mainly in Brazil (up \$346m) in both our RBWM and CMB businesses, where delinquency rates have increased following the deterioration of economic conditions. In addition, LICs increased in Mexico. This was primarily in our RBWM business reflecting our strategic focus on growing unsecured lending, as well as rising delinquency rates.

Operating Expenses

Reported operating expenses fell by \$393m, including the favourable effects of \$498m of currency translation and \$11m net adverse effect of significant items, primarily costs relating to the disposal of our operations in Brazil of \$11m.

Excluding these factors, operating expenses increased by \$94m, primarily due to wage inflation and union-agreed salary increases. This was partly offset by reduced amortisation costs in Brazil following the classification of assets to held for sale.

Regional performance tables can be found on pages 52 to 57 and reconciliations of reported results to adjusted performance for geographic regions can be found on pages 59 to 61.

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Overview
| Key
highlights

Global business snapshot u
RBWM

Higher Retail Banking revenue, but challenging market conditions in Wealth Management

- Adjusted profit before tax fell by \$0.9bn, including \$0.8bn from our Principal RBWM business driven by lower Wealth Management income in Hong Kong and France, and higher loan impairment charges and other credit risk provisions ('LICs') in Brazil (up \$0.2bn).
- Adjusted revenue in Principal RBWM Retail Banking rose as asset and deposit balances grew (\$8.2bn and \$32.5bn, respectively).

- Personal lending adjusted revenue grew in Latin America as unsecured lending balances grew in our Mexico business.

- Adjusted costs fell by \$0.3bn, driven by a strong focus on cost management, the impact of transformation programmes and other cost-saving initiatives.
- Lending balances in the US Consumer and Mortgage lending ('CML') run-off portfolio fell from continued run-off, and sales of \$4.7bn, with a reduction in associated costs.
- Return on risk-weighted assets ('RoRWA') was 4.0% in 1H16 for Principal RBWM on a reported basis.

CMB

Adjusted revenue growth of \$0.1bn in a challenging environment

- Adjusted profit before tax fell by 6% due to higher LICs across a small number of markets.
- Adjusted revenue growth of 2% was driven by continued balance growth in Global Liquidity and Cash Management ('GLCM') and in Credit and Lending, which was partly offset by lower revenue in Global Trade and Receivables Finance ('GTRF') reflecting weaker world trade due to reduced demand and lower commodity prices.

- Positive adjusted jaws of 1.7% reflected revenue growth, disciplined cost management and lower full-time equivalent employees ('FTEs').

- Management initiatives drove a further \$11bn reduction in RWAs in 1H16, leading to a cumulative reduction of \$34bn since our Investor Update in June 2015.

GB&M

Client-facing GB&M revenue down by 8% in challenging market conditions

- Adjusted profit before tax fell by \$1.1bn or 21%. Despite a decline in revenue (down \$0.9bn) from reduced client flows amid challenging market conditions, notably in Equities and Foreign Exchange, revenue grew in our Rates and GLCM businesses demonstrating the value of our diversified business model.
- Our market share in Global Debt Capital Markets increased by 14% against an overall market growth of just 2%.

- Progress continued in our transformational cost-saving initiatives (total costs down \$0.2bn), with headcount now at its lowest since February 2014.

- RWAs remained broadly unchanged in 1H16. This included a total of \$23bn of RWA reductions through management actions, leading to a cumulative reduction of \$94bn since our Investor Update in June 2015.

GPB

Continued repositioning of our GPB business

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- Adjusted profit before tax fell by 23%, reflecting challenging market conditions in Europe and Asia, despite a 9% fall in costs.
- We continued to grow the parts of the business that fit our desired model, attracting net new money of \$5bn, notably in the UK, with more than 50% coming from collaboration with other global businesses.
- We broadened our product base through collaboration with the Asset Management Group in RBWM to support future growth.
- Within our reported results, we recognised a \$0.8bn impairment relating to the goodwill of the business in Europe. For further details, see Note 20 on page 145.

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Key highlights

Regions snapshot u
Europe

Cost reduction against a backdrop of challenging market conditions

- Adjusted profit before tax fell by \$0.7bn or 28%, driven by challenging market conditions in client-facing GB&M and in life insurance manufacturing in RBWM from adverse market updates.

- Although revenue decreased, in CMB there was strong revenue growth in the UK and Germany, in part driven by lending balance growth.
- We reduced costs by \$0.2bn through cost management initiatives, more than offsetting the effects of investment and inflation. This fall included the benefit of an increased bank levy credit of \$0.1bn relating to a prior year charge.

Asia

Revenue headwinds from adverse market conditions

- Adjusted profit before tax fell by \$0.6bn or 8%, driven by lower revenues in RBWM both from wealth distribution income reflecting weak market sentiment and from life insurance manufacturing due to adverse market updates coupled with challenging market conditions in our client-facing GB&M business.
- RoRWA remained strong at 3.1%.

- We reduced costs by \$0.2bn through cost management initiatives, more than offsetting the effects of inflation and investment as we aim to grow our business in China's Pearl River Delta and the ASEAN region.
- We strengthened our leading position in the internationalisation of China's renminbi currency and for the fifth consecutive year achieved the Asiamoney Best Overall Offshore RMB Product and Services Award.

Middle East and North Africa

Strong performance, supported by robust cost management despite a low oil price environment
- Adjusted profit before tax rose by \$0.1bn or 12%, primarily due to increased revenue across all our global businesses, especially GB&M.
- Operating expenses fell \$58m or 9% with reductions in RBWM, GB&M and CMB and across our priority countries.

- This decline in operating expenses reflected the impact of cost-saving initiatives which more than offset continued investment in compliance.
- We grew revenue across our strategic trade corridors and in the majority of the cross-business synergies we track, including a 34% increase in revenue from GLCM products sold to GB&M customers.

North America

Lower profit before tax from higher LICs, partly mitigated by cost reductions
- Adjusted profit before tax fell by \$0.2bn or 24% as cost savings were more than offset by higher LICs, notably related to the mining, and oil and gas sectors.

- We continued to focus on trade corridors, with revenue growth from our US commercial clients and their international subsidiaries.
- The run-off of the US CML run-off portfolio continued, its profit before tax fell due to lower revenue, and LICs increased. Portfolio sales

totalled \$4.7bn in 1H16.

Latin
America

Continued progress in strategic initiatives with a strong business performance
– Adjusted profit before tax fell by \$0.3bn driven by a decrease in Brazil of \$0.4bn, reflecting an increase in LICs, partly offset by an increase in profit before tax in Mexico and Argentina from revenue growth.

– Growth initiatives in Mexico resulted in a 18% increase in lending balances and an increase in market share across core retail portfolios. Revenue increased, while cost growth was controlled, resulting in positive jaws.
– The sale of our operations in Brazil completed on 1 July 2016.
Ø For detailed information on our financial performance, see pages 26 to 36.

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Overview
Group Chairman's
Statement

Amid a turbulent period, nothing cast doubt on the strategic direction and priorities we laid out just over a year ago.

The first half of 2016 was characterised by spikes of uncertainty which greatly impacted business and market confidence. This was reflected in lower volumes of customer activity and higher levels of market volatility. Concern over the sustainable level of economic growth in China was the most significant feature of the first quarter and, as this moderated, uncertainty over the upcoming UK referendum on membership of the European Union intensified. Demand for credit for investment slowed as a consequence. Equity market activity was also markedly lower, particularly in Hong Kong, reflecting both economic uncertainty and weaker market pricing, which was exacerbated by net selling from sovereign funds impacted by lower oil prices. The period ended with exceptional volatility as financial markets reacted to the UK referendum decision to leave the EU, a result that had not been anticipated. HSBC came through this period securely as our diversified business model and geographic profile again demonstrated resilience in difficult market conditions.

Pre-tax profits of \$9.7bn on a reported basis were \$3.9bn, 29% lower than in the first half of 2015. On the adjusted basis used to assess management performance, pre-tax profits were \$10.8bn, some 14% lower than in the comparable period. Most of the decline in respect of our global business revenues reflected weaker market-facing activity, where lower transaction volumes evidenced customer restraint in uncertain times. Credit-related income remained solid although impairment charges rose against historically low levels. We made progress against our cost challenges, in reducing legacy assets and taking actions to release capital from secondary activities.

As a consequence, our common equity tier 1 capital position, which is critical to our capacity to sustain our dividend, strengthened to 12.1% from 11.9% at the beginning of the year. The sale of our Brazilian operations which closed on 1 July is expected to add a further 0.7 of a percentage point in the third quarter. Earnings per share were \$0.32 (1H15: \$0.48). Our first two dividends in respect of the year, of \$0.20 in aggregate, were in line with our plans and the prior year.

Reflecting this strengthened capital position, the Board has determined to return to shareholders \$2.5bn, approximately half of the capital released through the sale of Brazil, by way of a share buy-back to be executed during the second half of the year.

The Board has also determined that in light of the current uncertain economic and geo-political environment, together with our projections for an extended period of low interest rates, it would be appropriate to remove a timetable for reaching our target return on equity in excess of 10%. While the target remains intact and appropriate, the current guidance which points to the end of next year is no longer considered achievable. In addition, the Board is planning in this environment on the basis of sustaining the annual dividend in respect of the year at its current level for the foreseeable future.

Strategic direction remains clear

Nothing that has happened in this turbulent period casts doubt on the strategic direction and priorities we laid out just over a year ago. Our focus on the Pearl River Delta remains a key priority. We see growing movement in public policy decisions towards needed infrastructure investment on a massive scale, notably through the Belt and Road initiative in China, to underpin increased urbanisation across Asia, the Middle East and Africa, and in support of the transition to a lower carbon economy. Capital markets development in both Europe and Asia remains essential to diversify funding sources, to address demographic ageing and to expand the role of 'green' bond finance. Outward investment from China is growing fast and is expected to accelerate. Internationalisation of the renminbi is also expected to accelerate as a consequence of all of the above. HSBC is well positioned for all of these mega trends, with clear evidence of this contained within the Group Chief Executive's Review.

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Regulatory policy must be aligned with public policy support for growth

At the end of June we, along with the rest of the banking industry, submitted analysis to the Basel Committee on Banking Supervision in response to their request for a quantitative impact assessment around new proposals, inter alia, aimed at reducing the complexity of the regulatory framework and improving comparability. How the regulatory community responds to this consultation, due by the end of this year, is of huge importance to our customers and our shareholders. Any substantial further increase in capital requirements, which is quite possible within the range of outcomes implied by industry-wide impact studies, could have a major impact on the availability and cost of credit, as well as on the return on capital our industry is able to generate. Such constraints would also lean against the increased public policy emphasis on stimulating economic growth at a time of elevated uncertainties.

We therefore welcome statements from within the regulatory community and, most recently, in the communiqué from the G20 Finance Ministers and Central Bank Governors meeting in Chengdu, China, that these proposals should not lead to a significant broad-based increase in overall capital requirements. This is consistent with our view that satisfactory levels of capital have been achieved in most banks through the already extensive revisions to the regulatory capital framework. These, together with improvements in risk management and stress testing, have contributed to financial stability, with significantly increased levels of regulatory capital now in place. Near finalisation of the principal resolution regimes have also significantly extended the range of capacity available to absorb losses in the event of failure. A revised calibration that failed to take this progress into account would, in our view, risk undermining that progress.

UK referendum on EU membership

As a consequence of the UK referendum decision to leave the European Union, we are entering a new era for the UK and UK business. The work to establish fresh terms of trade with our European and global partners will be complex and time-consuming. Our first priorities have been to offer support to our colleagues working outside their home country who may feel unsettled, as well as proactively reaching out to and working with our customers as they prepare for the new environment.

Now is a time for calm consideration of all the issues at hand and careful assessment of how prosperity, growth and a dynamic economy for both the UK and the rest of Europe can be ensured following an orderly transition period. Critical elements include securing the best possible outcome on continuing terms of trade and market access, and ensuring the UK remains attractive for inward investment and has access to all the skills necessary to be fully competitive.

HSBC's experience in facilitating and financing trade for over 150 years has shown the value and importance of open trading relationships – for individuals, businesses, communities and nations. We believe that such an open trading relationship must be at the centre of the new relationship between the UK and the EU, and indeed the rest of the world. We aim to do our part in making the transition for our customers to the new arrangements as smooth as possible.

Board changes

Since we last reported to shareholders we have welcomed David Nish to the Board. David most recently served as Chief Executive Officer of Standard Life plc between 2010 and 2015, having originally joined as its Group Finance Director in 2006. He brings to HSBC considerable relevant experience in financial services, in financial accounting and reporting, as well as a wide-ranging understanding of all aspects of corporate governance. David has also joined the Group Audit Committee.

Outlook

It is evident that we are entering a period of heightened uncertainty where economic risks are being overshadowed by political and geo-political events. We are entering this environment strongly capitalised and highly liquid. More importantly, given our history we have considerable experience within the senior management ranks of responding to severe stress events, experience that was deployed most recently in successfully dealing with the market volatility which followed the UK referendum decision on EU membership. Re-positioning our own European business once the future of the UK's current 'passporting' arrangements for financial services is clarified in the upcoming negotiations will add to the very heavy workload already in place to address the regulatory and technological changes that are reshaping

our industry. On behalf of the Board let me therefore close my statement by once again recognising the dedicated commitment and effort by all of our 239,000 colleagues to implement these changes and so position HSBC for future success.

Douglas Flint
Group Chairman
3 August 2016

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Overview

Group Chief

Executive's Review

Our highly diversified, universal banking business model helped to drive growth and capture market share in a number of areas.

Performance

We performed reasonably well in the first half in the face of considerable uncertainty. Profits were down against a strong first half of 2015, but our highly diversified, universal banking business model helped to drive growth in a number of areas. We also captured market share in many of the product categories that are central to our strategy. We completed the sale of our Brazil business to Banco Bradesco S.A. in July. This transaction reduces Group risk-weighted assets by around \$40bn and would increase the Group's common equity tier 1 ratio from 12.1% at 30 June 2016 to 12.8%.

Global Banking and Markets weathered a large reduction in client activity in January and February, but staged a partial recovery in the second quarter. Equities and Foreign Exchange had a difficult half, but Rates performed well on the back of increased client volumes. Global Banking and Markets also achieved some of its strongest rankings for Debt Capital Markets and Mergers and Acquisitions. Improved collaboration with Commercial Banking was cited as a major factor in the naming of HSBC as 'World's Best Investment Bank' and 'World's Best Bank for Corporates' at the Euromoney Awards for Excellence 2016. The citation also highlighted HSBC's diversified and differentiated business model, and described HSBC as 'one of the most joined-up firms in the industry'.

Retail Banking and Wealth Management was also affected by reduced client activity. This led to lower revenue in our Wealth businesses, albeit against last year's strong second quarter which was boosted by the Shanghai-Hong Kong Stock Connect. While the revenue environment was challenging, we were able to capture our highest ever share of the Hong Kong mutual fund market by providing the right products to help clients manage the current economic environment. Higher lending balances in Mexico and increased customer deposits in all but one region compensated partly for the reduction in revenue from Wealth Management, with positive implications for future growth. Commercial Banking performed well on the back of targeted loan growth in the UK and Mexico, and higher client balances in Global Liquidity and Cash Management. We maintained our position as the world's number one trade finance bank, with revenue growth and market share gains in Receivables Finance and Supply Chain Finance. We are

in an excellent position to capitalise when global trade starts to recover.

Global Private Banking attracted \$5bn of net new money in the first half, more than half of which came through greater collaboration with our other Global Businesses. This demonstrates the value that the Private Bank brings to our clients from across the Group and the important role it plays within our universal banking business model.

Loan impairment charges increased, mainly in the oil and gas, and metals and mining sectors, and in Brazil due to weakness in the Brazilian economy. We remain confident of our credit quality.

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Strategy

We are now more than a year into implementing our strategic actions to improve returns and gain the maximum value from our international network. We have made good progress in the most pressing areas but have further to go in others, due largely to external factors.

In the first half of the year we removed an extra \$48bn of risk-weighted assets from the business, around half of which came from Global Banking and Markets. This takes us more than 60% of the way towards our target and keeps us on track to deliver the savings we promised by the end of 2017. These savings were in addition to the \$40bn reduction from the completion of the sale of our operations in Brazil in July.

We continue to make material progress in cutting costs. In the first half of 2016 we reduced our cost base compared with the first half of 2015, in spite of inflation and continued investment in compliance, regulatory programmes and growth. We have achieved this through tight cost control, operational enhancements and better use of digital platforms, improving our service to customers in the process. We are on track to hit the top end of our \$4.5-5.0bn cost savings target range.

We are on the way to restoring profitability in our businesses in Mexico and the US. These are important businesses for the wider Group.

Having commenced the reshaping and de-risking of our Mexico operations in 2012, we have been rebuilding the business since the start of 2015. Since then, we have expanded our share of the cards, personal loans and mortgage markets, and grown our trade finance and international payments operations. As a consequence, adjusted revenues were up by 12% in Retail Banking and Wealth Management and 27% in Commercial Banking. Adjusted profits in our Mexico business were up 37% on the same period last year.

In the US, we have invested in Commercial Banking, and Global Banking and Markets to increase revenue from our network. We have also made rapid progress in cutting costs and removing wholesale risk-weighted assets. We have continued to wind down our US CML run-off portfolio quickly and efficiently, disposing of an extra \$4.7bn of legacy assets in the first half of 2016. This progress, along with further improvements in our capital planning and management processes, helped the US business to achieve a non-objection to the capital plan it submitted as part of this year's Federal Reserve Comprehensive Capital Analysis and Review ('CCAR'). This plan includes a proposed dividend payment to HSBC Holdings plc in 2017, which would be the first such payment to the Group from our US business since 2007.

Two-thirds of our adjusted profit before tax, or \$7.2bn, came from Asia in the first half of 2016, up from 62% in the same period last year. We have continued to develop our Asia businesses, particularly Asset Management and Insurance, and our operations in the ASEAN region and the Pearl River Delta. We increased revenue in all four areas compared with the same period last year and increased assets under management in Asia by 7%. We also maintained our leadership of the market for renminbi business, topping the Asiamoney Offshore RMB Poll for 'Best Overall Provider of Offshore RMB Products and Services' for the fifth year in a row.

There are areas where we have more to do. Our pivot to Asia depends on our ability to redeploy the capital that we have made available. While we have clearly demonstrated that we can release capital by reducing risk-weighted assets, the global slow-down has delayed the process of redistributing that capital in Asian growth markets. This will not happen until we judge it to be in the best interests of shareholders.

We are continuing to implement Global Standards throughout HSBC.

Share buy-back

Our strong capital position and stable earnings mean that we are able to retire some of the equity that we no longer require to support the Brazil business. Having received the appropriate regulatory clearances, we will therefore execute a \$2.5bn share buy-back in the second half of the year.

Looking forward

Following the outcome of the referendum on the UK's membership of the European Union, there has been a period of volatility and uncertainty which is likely to continue for some time. We are actively monitoring our portfolio to quickly identify any areas of stress, however it is still too early to tell which parts may be impacted and to what extent.

While the economic environment remains difficult, the action we have taken has already put us in a far better position for when normal conditions return. HSBC is stronger, leaner and better connected than it was last June. There is much still to do, but we are making progress in all of the areas within our control. In the meantime, our balanced and diversified business model, strong liquidity and strict cost management make us highly resilient.

Stuart Gulliver
Group Chief Executive
3 August 2016

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Overview

Strategic actions

We have made significant progress against the actions outlined in our June 2015 Investor Update.

Capturing value from our international network

In June 2015, we outlined a series of strategic actions to make the most of our competitive advantages and respond to a changing environment.

These actions are focused on improving efficiency in how we use our resources, and on investing for growth in line with our strategy. Each action has targets defined to the end of 2017. The table opposite contains a summary of our progress in 1H16 with additional details provided below.

Resizing and simplifying our business

We have made significant progress in resizing and simplifying our business. In 1H16, management actions reduced RWAs in client facing GB&M and legacy credit by \$23bn and we completed asset sales totalling \$4.7bn from our US Consumer and Mortgage Lending ('CML') run-off portfolio.

As part of our initiative to optimise our network, we completed the sale of HSBC Bank Brazil on 1 July 2016, and will continue to serve the international and cross-border needs of our large corporate clients in Brazil through HSBC Brasil S.A. - Banco de Investimento.

In the NAFTA region, we grew adjusted revenues in Mexico by 12% compared with 1H15, supported by market share gains in RBWM across key lending products. They include a doubling of personal loans issued compared with 1H15. In the US, we grew revenues and increased cost efficiency while continuing to support our clients internationally. Revenues from international subsidiaries of our US clients increased by 13% compared with 1H15.

Our cost-saving programme has shown good progress and we are on track to meet our target set for the end of 2017. Operating expenses fell by 4% compared with 1H15, facilitated by increased efficiency in our processes. For example, we have shortened the average time it takes to open accounts

Redeploying capital to grow our business

At the heart of our business is our international network. We are focusing efforts to grow our businesses by looking at customers' needs across products, geographies and supply chains. In 1H16, revenue from transaction banking products was down by 1% overall due to deteriorating macroeconomic conditions, however, we grew revenues in our GLCM business. In 2016, we were named Best Bank for Corporates by Euromoney and Best Supply-Chain Finance Bank Global by Trade Finance Awards.

We continue to invest for growth in Asia. In China's Pearl River Delta, we increased the number of new RBWM and CMB clients by 66% and 34%, respectively, compared with 1H15, and grew our mortgage loan books by more than 35%. We are also using our network to connect clients into and out of China, including Chinese investments linked to the government's Belt and Road initiative.

In the ASEAN region, we developed a new automated statutory payments platform for companies across the region. We grew revenues from international subsidiaries of our ASEAN-region clients. In Singapore, we completed the transfer of our RBWM business to our locally incorporated subsidiary, HSBC Bank Singapore.

We remain recognised as the leading bank for international RMB products and services. We were the first bank to facilitate overseas institutional investment into the China interbank bond market under newly relaxed regulations, and were among the first foreign banks to complete RMB cross-border settlement for individuals, as permitted in the Guangdong Free Trade Zone.

Finally, we continue to make progress in implementing our Global Standards programme to help protect customers and the wider financial system from financial crime.

Selected awards and recognition 2016
Euromoney Awards for Excellence 2016
Best Bank for Corporates
Best Investment Bank

Trade Finance Awards 2016
Best Supply-Chain Finance Bank Global

Asiamoney Offshore RMB Poll
Best Overall Offshore RMB Products/Services

for CMB clients by 30% since 1H15, and we decreased the number of high value manual payments by 64% compared with 1H15.

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Reported results

	\$m	Half-year to		
		30 Jun 2016	30 Jun 2015	31 Dec 2015
Reported results				
Net interest income		15,760	16,444	16,087
Net fee income		6,586	7,725	6,980
Net trading income		5,324	4,573	4,150
Other income		1,800	4,201	(360)
Net operating income before loan impairment charges and other credit risk provisions ('revenue')		29,470	32,943	26,857
Loan impairment charges and other credit risk provisions ('LICs')		(2,366)	(1,439)	(2,282)
Net operating income		27,104	31,504	24,575
Total operating expenses		(18,628)	(19,187)	(20,581)
		8,476	12,317	3,994

This table shows our reported results for the last three half-years, ended 30 June 2016 ('1H16'), 31 December 2015 ('2H15') and 30 June 2015 ('1H15').

Reported profit before tax of \$9.7bn in 1H16 was \$3.9bn or 29% lower than in 1H15. This decrease was in part due to the non-recurrence of a gain on the partial sale of our shareholding in Industrial Bank of \$1.4bn in 1H15, and from an impairment of \$0.8bn relating to the goodwill of our GPB business in 1H16 in Europe. It was also driven by transformation activities to deliver cost reductions and productivity outcomes ('costs-to-achieve') of \$1.0bn in 1H16 and the adverse effect of foreign currency movements.

Excluding the effects of significant items and currency translation, profit before tax fell by \$1.8bn or 14% from 1H15. We describe the drivers of our adjusted performance on pages 19 and 20.

			Operating profit
			Share of profit in associates and joint ventures
	1,238	1,311	1,245
			Profit before tax
	9,714	13,628	5,239

Reported revenue of \$29.5bn in 1H16 was \$3.5bn or 11% lower than in 1H15. This was in part due to a decrease in significant items totalling \$0.6bn and the adverse effect of currency translation between the periods of \$1.6bn. Significant items included:

- the non-recurrence a \$1.4bn gain on the partial sale of our shareholding in Industrial Bank Co. Ltd ('Industrial Bank') recognised in 1H15;

- a gain of \$0.6bn on disposal of our membership interest in Visa Europe in 1H16; and
- fair value movements on our own debt designated at fair value from changes in credit spreads of \$1.2bn in 1H16 compared with \$0.7bn in 1H15.

Reported LICs of \$2.4bn were \$0.9bn higher than in 1H15. This reflected an increase in Brazil from a deterioration in its economy of \$0.3bn. In addition, LICs rose in our GB&M and CMB businesses, notably in the oil and gas sector. This was partly offset by the favourable effects of currency translation between the periods of \$0.2bn.

Reported operating expenses of \$18.6bn were \$0.6bn or 3% lower than in 1H15. This reduction was partly driven by the continuing impact of our cost-saving initiatives, and the favourable effects of currency translation between the periods of \$1.0bn. Significant items increased by \$1.1bn, and included:

- costs-to-achieve of \$1.0bn;
- an impairment of \$0.8bn relating to the goodwill of our GPB business in Europe (please refer to Note 20 on page 146 for further details); and
- settlements and provisions relating to legal matters of \$0.7bn in 1H16 compared with \$1.1bn in 1H15.

Reported income from associates of \$1.2bn decreased marginally from 1H15.

For further details of our reported results, see pages 26 to 36.

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Adjusted performance

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements on page 116. We also present adjusted performance measures to align internal and external reporting, identify and quantify items management believes to be significant, and provide insight into how management assesses period-on-period performance. Adjusted performance measures are highlighted with the following symbol: u

To arrive at adjusted performance, we adjust for:

- the year-on-year effects of foreign currency translation; and
- the effect of significant items that distort year-on-year comparisons and are excluded in order to understand better the underlying trends in the business.

Ø For reconciliations of our reported results to an adjusted basis, including lists of significant items, see pages 59 to 64.

	\$m	Half-year to	
		30 June	30 June
		2016	2015
Adjusted results u	Adjusted results		
This table shows our adjusted results for 1H16. These are discussed in more detail on the following pages.	Net operating income before loan impairment charges and other credit risk provisions (revenue)	27,868	29,178
	Loan impairment charges and other credit risk provisions ('LICs')	(2,366)	(1,279)
	Total operating expenses	(15,945)	(16,605)
	Operating profit	9,557	11,294
	Share of profit in associates and joint ventures	1,238	1,256
	Profit before tax	10,795	12,550

Adjusted profit before tax u
On an adjusted basis, profit before tax of \$10.8bn was \$1.8bn or 14% lower than in 1H15. Despite a fall in operating expenses of \$0.7bn, the reduction in profit before tax was driven by lower revenue and higher LICs.

Adjusted revenue u
Adjusted revenue of \$27.9bn was \$1.3bn or 4% lower. Notably:
- In GB&M, total revenue was \$0.9bn or 9% lower against a strong performance in 1H15. This was driven by a decrease in

- In RBWM, revenue decreased by \$0.9bn or 7%, mainly in our Principal RBWM business (down by \$0.7bn) following a strong performance in 1H15, while revenue in our US CML run-off portfolio fell \$0.2bn. The reduction in Wealth Management of \$0.9bn was driven by lower revenue in life insurance manufacturing in both Europe and Asia because of adverse market updates as a result of equities movements, as well as lower investment distribution revenue in

By contrast, current account and savings revenue increased, reflecting growth in customer deposits, notably in Hong Kong and the UK. Personal lending revenue was broadly unchanged, with growth in unsecured lending, notably in Mexico from increased balances, offset by lower credit card revenue in the UK due to regulatory changes and spread compression in mortgages. In our US CML run-off portfolio, revenue decreased by

our client-facing business (down \$0.6bn or 8%), notably Markets (down \$0.4bn) and Principal Investments (down \$0.1bn). The fall in Markets was principally in Equities (down \$0.5bn) and Foreign Exchange (down \$0.1bn), due to market volatility which led to reduced client activity. However, revenue was higher in Rates due to increased client activity and in Global Liquidity and Cash Management, which continued to perform well. In legacy credit, revenue was \$0.2bn lower, due to higher revaluation losses in 1H16.

Asia due to lower retail securities and mutual funds turnover.

\$0.2bn reflecting lower average lending balances and the impact of portfolio sales.
- In GBP, revenue fell by \$0.2bn or 14% driven by lower brokerage and trading activity in both Europe and Asia reflecting adverse market sentiment in unfavourable market conditions.

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Adjusted performance continued

These factors were partly offset:

- In CMB, revenue rose by \$0.1bn or

2% driven by Global Liquidity and

Cash Management from higher average

balances, notably in Hong Kong and the

UK, together with higher margins in

Argentina, as well as in Credit and

Lending, primarily from continued loan

growth in the UK. This was partly

offset by lower revenue in Global Trade

and Receivables Finance, notably in

Hong Kong reflecting reduced demand

and lower trade lending due to lower

interest rates in mainland China.

However, we continue to increase

market share in Hong Kong.

- In 'Other' revenue grew by \$0.4bn,

primarily reflecting the fair value

measurement and presentation of

long-term debt issued by HSBC

Holdings and related hedging

instruments. This included higher

favourable fair value movements

relating to the economic hedging of

interest and exchange rate risk on our

long-term debt and related derivatives.

Adjusted LICs u

Our LICs of \$2.4bn were \$1.1bn higher

than in 1H15, notably reflecting an

increase in Brazil of \$0.3bn in RBWM

and CMB related to the deterioration in

the local economy. In addition, LICs

also increased across our GB&M and

CMB businesses:

- In GB&M, LICs were \$0.4bn

compared with a marginal release in

1H15, driven by higher individually

assessed provisions, notably in the oil

and gas, and metals and mining sectors.

- In CMB, the increase from \$0.5bn to

\$0.8bn reflected higher individually

assessed provisions in Canada and

Spain, as well as Brazil. Collectively

Principal RBWM

RBWM US run-off portfolio

CMB

Client-facing GB&M and BSM

Legacy credit

GPB

Other (including Intersegment)

Total

1H16	1H15	Variance	%
\$m	\$m	\$m	
10,423	11,116	(693)	(6)
414	577	(163)	(28)
7,279	7,141	138	2
8,882	9,558	(676)	(7)
(100)	96	(196)	(204)
971	1,125	(154)	(14)
(1)	(435)	434	(100)
27,868	29,178	(1,310)	(4.5)

Adjusted operating expenses u

Our adjusted operating expenses of \$16.0bn

in 1H16 fell by \$0.7bn or 4% compared

with 1H15, despite inflationary pressures

and increases in regulatory programmes and

compliance. This included an increased

credit relating to the prior-year bank levy

charge of \$0.1bn. Excluding this, costs in

1H16 were \$0.6bn lower. This reflects the

continuing effect of our cost-saving

initiatives and a strong focus on cost

management. These resulted in a reduction

in full-time equivalent staff in 1H16 of

3,900.

The initiatives which have helped us

decrease our costs include:

- In RBWM, our branch rationalisation
programme;- In GB&M significantly lower headcount,
and better use of our global service centres.GB&M also benefited from lower
performance-related costs.- In CMB, a simplified
organisation structure and
process optimisation within our
lending, on-boarding and
servicing platforms, although
overall costs in CMB were
broadly unchanged.- These cost savings were also
supported by the benefits of
transformational activities in
our technology, operations and
other functions, primarily from
process automation and
organisational re-design.

Adjusted income from

associates u

Our share of income from

associates of \$1.2bn was

marginally lower than in 1H15.

The majority of this income was

from our investments in Bank

of Communications Co.,

Limited ('BoCom') and The

Saudi British Bank.

assessed provisions also rose in the UK and Brazil.

-In RBWM, LICs rose from \$0.8bn to \$1.1bn, mainly in Brazil (\$0.2bn higher).

	1H16 Group excluding Brazil \$m	Brazil \$m	Group\$m	1H15 Group excluding Brazil \$m	Brazil \$m	Group\$m	Variance Group excluding Brazil \$m	Group\$m
Revenue	26,337	1,531	27,868	27,547	1,631	29,178	(1,210	)(1,310)
LICs	(1,618	)(748	)(2,366	)(877	)(402	)(1,279	)(741	)(1,087)
Operating expenses	(14,886	)(1,059	)(15,945	)(15,522	)(1,083	)(16,605	) 636	660
Income from associates	1,239	(1)1,238	1,257	(1)1,256	(18)(18)
Adjusted profit before tax	11,072	(277)10,795	12,405	145	12,550	(1,333)(1,755)

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The strategic actions set out on page 16 are being undertaken to support our aim of achieving our medium-term financial targets.

Ø For detailed information on our financial performance, see pages 26 to 36.

Delivering on our Group financial targets

Return on equity

Our medium-term target is to achieve a return on equity ('RoE') of more than 10%. This target is modelled on a CET1 ratio in the range of 12% to 13%.

In 1H16, we achieved an RoE of 7.4% compared with 10.6% in 1H15.

Adjusted jaws

Our target is to grow revenue faster than operating expenses on an adjusted basis. This is referred to as positive jaws. In 1H16, adjusted revenue fell by 4.5%, whereas our adjusted operating expenses reduced by 4.0%. Jaws was therefore negative 0.5%.

Understanding jaws

Jaws measures the difference between revenue and cost growth rates. Positive jaws is where the revenue growth rate exceeds the cost growth rate. We calculate jaws on an adjusted basis as described on page 24.

Jaws was affected by our revenue performance in 1H16. Adjusted revenue fell by 3.8% in the first quarter of 2016 ('1Q16') against the first quarter of 2015 ('1Q15'), and this had increased to 4.5% by the end of 1H16, reflecting the challenging economic environment.

However, adjusted operating expenses fell by 1.0% in the first quarter of 2016 and this increased to a fall of 4.0% by the end of 1H16, as we continued with our progress on our cost-saving plans set out at our Investor Update.

In the second quarter of 2016 ('2Q16') our adjusted jaws was positive 1.4%, despite a reduction in adjusted revenue of 5.3% compared with the second quarter of 2015 ('2Q15'), as our adjusted operating expenses were 6.7% lower.

Dividends

In the current uncertain environment we plan to sustain the annual dividend in respect of the year at its current level for the foreseeable future. Growing our dividend in the future depends on the overall profitability of the Group, delivering further release of the less efficiently deployed capital and meeting regulatory capital requirements in a timely manner. Actions to address these points are core elements of the investor update in June 2015.

Overview

Risk overview

We actively manage risk to protect and enable the business.

Managing risk

As a provider of banking and financial services, managing risk is part of our core day-to-day activities. Our success in doing so is due to our clear risk appetite, which is aligned to our strategy. We set out the aggregate level and types of risk that we are willing to accept in order to achieve our medium- and long-term strategic objectives in our risk appetite statement. This statement is approved by the Board and includes:

- risks that we accept as part of doing business, such as credit risk and market risk;
- risks that we incur to generate income, such as operational risk, which are managed to remain below an acceptable tolerance; and
- risks for which we have zero tolerance, such as reputational risk.

To ensure that risks are managed in a consistent way across the Group, we employ an enterprise risk management framework at all levels of the organisation and across all risk types. It ensures that we have appropriate oversight of and effective accountability for the management of risk. This framework is underpinned by our risk culture and reinforced by the HSBC Values and our Global Standards.

The Global Risk function, led by the Group Chief Risk Officer, who is an executive Director, is responsible for enterprise-wide risk oversight and is independent of the sales and trading functions of the Group's businesses. This independence helps ensure an appropriate balance in risk/return decisions, and appropriate independent challenge and assurance.

Ø Our risk management framework and the material risk types associated with our banking and insurance manufacturing operations are provided on pages 101 and 105, respectively, of the Annual Report and Accounts 2015.

Top and emerging risks

Our top and emerging risks framework helps enable us to identify current and forward-looking risks so that we may take action that either prevents them crystallising or limits their effect. Top risks are those that may have a material impact on the financial results, reputation or business model of the Group in the year ahead. Emerging risks are those that have large unknown components and may form beyond a one-year horizon. If these risks were to occur, they could have a material effect on HSBC.

During 1H16, we made one change to our top and emerging risks. 'IT systems infrastructure and resilience' was added as a new thematic risk due to the need to ensure core banking systems remain robust as digital and mobile banking services continue to evolve.

In addition, two thematic risks were renamed to better reflect the issues facing HSBC. We use the new names in the table that follows.

Our current top and emerging risks are summarised on the next page.

Ø Our approach to identifying and monitoring top and emerging risks is described on page 103 of the Annual Report and Accounts 2015.

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Risk
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Risk and Mitigants

Externally driven

Geopolitical We conducted physical security risk reassessments in higher risk locations in which we operate in response to the heightened threat of terrorism, and we enhanced procedures and training where required.

Economic

outlook We undertook scenario analysis and stress tests in the lead up to the UK referendum on EU membership to identify vulnerabilities in the event of a vote to leave the EU and potential mitigating actions, and closely capital engaged with the Prudential Regulation Authority on liquidity planning.

flows

Turning

of the credit cycle Stress tests were conducted on our oil and gas portfolio on \$25 and \$20 per barrel price scenarios. This sector remains under enhanced monitoring with risk appetite and new lending significantly curtailed.

Cyber

threat

and unauthorised access We took part in an industry-wide cyber resilience exercise, and incorporated lessons learned into our new and existing cyber programmes, which are designed to mitigate specific cyber risks and enhance our control access environment.

to

systems

Regulatory

developments

with

adverse

* impact on business model and profitability US deferred prosecution We actively engaged with regulators and policymakers to help ensure that new regulatory requirements, such as the recent Basel Committee on Banking Supervision consultation on reducing variation in credit risk RWAs, are considered fully and can be implemented in an effective manner.

model

and

profitability

US

deferred

prosecution

agreements We are continuing to take concerted action to remediate anti-money laundering ('AML') and sanctions and compliance deficiencies and to implement Global Standards. We also continue to embed our Affiliate Risk related Forum to further mitigate financial crime risk issues arising from operations conducted within the HSBC agreement network.

and

consent

orders

è

Regulatory We are focusing on embedding our global AML and sanctions policies and procedures. We further enhanced focus our management of conduct in areas including the treatment of potentially vulnerable customers, market surveillance, employee training and performance management.

conduct
of
business
and
financial
crime

Internally driven
IT

systems

infrastructure We are investing in specialist teams and our systems capability to help ensure strong digital capabilities, and delivery quality and resilience within our customer journeys.

resilience

Impact
of
organisational
change
and

* regulatory We have increased our focus on resource planning and employee retention, and are developing initiatives to equip line managers with skills to both manage change and support their employees.

demands
on
employees

Executive The Group Change Committee monitored the status of the high priority programmes across the Group that risk support the strategic actions, facilitating resource prioritisation and increased departmental coordination.

Third-party

risk We are implementing a framework to provide a holistic view of third-party risks which will help enable the consistent risk assessment of any third-party service against key criteria, combined with associated control monitoring, testing and assurance throughout the third-party lifecycle.

Model We implemented a new global policy on model risk management and are rolling out an enhanced model governance framework globally to address key internal and regulatory requirements. We continue to risk strengthen the capabilities of the independent model review team.

Data We continued to enhance our data governance, quality and architecture to help enable consistent data management aggregation, reporting and management.

é Risk heightened during 1H16

è Risk remained at the same level as 31 December 2015

* Thematic risk renamed during 1H16

Financial summary

Financial summary

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Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 109. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort period-on-period comparisons. These are considered non-GAAP financial measures.

Non-GAAP financial measures that we use throughout this Interim Report 2016 are described below. Non-GAAP financial measures are described and reconciled to the closest reported financial measure when used.

Adjusted performance

Adjusted performance is computed by adjusting reported results for the period-on-period effects of foreign currency translation differences and significant items which distort period-on-period comparisons.

We use 'significant items' to collectively describe the group of individual adjustments that are excluded from reported results when arriving at adjusted performance. These items, which are detailed below, are ones that management and investors would ordinarily identify and consider separately when assessing performance in order to better understand underlying trends in the business.

We consider adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believes to be significant and providing insight into how management assesses period-on-period performance.

Foreign currency translation differences

Foreign currency translation differences reflect the movements of the US dollar against most major currencies for 1H16. We exclude the translation differences when deriving constant currency data because using these data allows us to assess balance sheet and income statement performance on a like-for-like basis to better understand the underlying

trends in the business.

Foreign currency translation differences

Foreign currency translation differences for the half-years to 30 June 2015 and 31 December 2015 are computed by retranslating into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates:

- the income statements for the half-years to 30 June 2015 and 31 December 2015 at the average rates of exchange for the half year to 30 June 2016; and

- the balance sheets at 30 June 2015 and 31 December 2015 at the prevailing rates of exchange on 30 June 2016.

No adjustment has been made to the exchange rates used to translate foreign currency denominated assets and liabilities into the functional currencies of any HSBC branches, subsidiaries, joint ventures or associates. When reference is made to foreign currency translation differences in tables or commentaries, comparative data reported in the functional currencies of HSBC's operations have been translated at the appropriate exchange rates applied in the current period on the basis described above.

Significant items

The tables on pages 59 to 64 detail the effect of significant items on each of our geographical segments and global businesses during 1H16 and the two halves of 2015.

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Financial summary (continued)

Consolidated income statement

Summary consolidated income statement

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	\$m	\$m	\$m
Net interest income	15,760	16,444	16,087
Net fee income	6,586	7,725	6,980
Net trading income	5,324	4,573	4,150
Net income/(expense) from financial instruments designated at fair value	561	2,666	(1,134)
Gains less losses from financial investments	965	1,874	194
Dividend income	64	68	55
Net insurance premium income	5,356	5,607	4,748
Other operating income	644	836	219
Total operating income	35,260	39,793	31,299
Net insurance claims and benefits paid and movement in liabilities to policyholders	(5,790)	(6,850)	(4,442)
Net operating income before loan impairment charges and other credit risk provisions	29,470	32,943	26,857
Loan impairment charges and other credit risk provisions	(2,366)	(1,439)	(2,282)
Net operating income	27,104	31,504	24,575
Total operating expenses	(18,628)	(19,187)	(20,581)
Operating profit	8,476	12,317	3,994
Share of profit in associates and joint ventures	1,238	1,311	1,245
Profit before tax	9,714	13,628	5,239
Tax expense	(2,291)	(2,907)	(864)
Profit for the period	7,423	10,721	4,375
Profit attributable to shareholders of the parent company	6,912	9,618	3,904
Profit attributable to non-controlling interests	511	1,103	471
Average foreign exchange translation rates to \$:			
\$1: £	0.698	0.657	0.652
\$1: €	0.896	0.897	0.906

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Group performance by income and expense item

For further financial performance data for each geographical region and global business, see pages 41 to 51 and 52 to 64, respectively.

Net interest income

	Footnotes	Half-year to		
		30 Jun 2016 \$m	30 Jun 2015 \$m	31 Dec 2015 \$m
Interest income		23,011	24,019	23,170
Interest expense		(7,251)	(7,575)	(7,083)
Net interest income	1	15,760	16,444	16,087
Average interest-earning assets		1,733,961	1,730,663	1,723,296
Gross interest yield	2	2.67 %	2.80 %	2.67 %
Cost of funds		(1.01 %)	(1.03 %)	(0.97 %)
Net interest spread	3	1.66 %	1.77 %	1.70 %
Net interest margin	4	1.83 %	1.92 %	1.85 %
Net interest margin excluding Brazil		1.75 %	1.82 %	1.77 %

For footnotes, see page 65.

In 1H16, we recorded \$974m of net interest income in Brazil (1H15: \$1,214m; 2H15: \$1,011m) and average interest earning assets were \$37,390m (1H15: \$43,684m; 2H15: \$36,409m).

Reported net interest income of \$15.8bn decreased by \$0.7bn or 4% compared with 1H15. This included the significant items and currency translation summarised in the table below.

On a reported basis, net interest margin of 1.83% fell by 9 basis points ('bps'), driven by currency movements. On

1 July 2016, we completed the sale of our operations in Brazil. During 1H16, our net interest margin excluding our operations in Brazil was 1.75%, 8 basis points ('bps') lower than the group's total net interest margin for this period, reflecting the impact of relatively higher interest rates in Brazil compared with the rest of our portfolio.

Significant items and currency translation

		Half-year to		
		30 Jun 2016 \$m	30 Jun 2015 \$m	31 Dec 2015 \$m
Significant items				
– releases/(provisions) arising from the ongoing review of compliance with the UK Consumer Credit Act	2	12	(22)	
Currency translation	2	946	457	
Total	2	958	435	

Excluding the currency impact tabulated above, net interest income rose \$0.3bn, as increases in Hong Kong, Mexico and Argentina were partly offset by a reduction in the UK and mainland China. However, net interest spread and margin decreased slightly. This was due to a number of factors, including reduced yields on customer lending in Europe and increased costs of debt issued by HSBC Holdings, although we benefited from lower costs of funds on customer accounts in Hong Kong and increased yields in Mexico and Argentina.

Interest income

Reported interest income fell by \$1.0bn compared with 1H15, notably driven by currency movements in Latin

America and Europe. Excluding these, total interest income rose by \$0.6bn, notably in Mexico, Argentina and the US. Interest income also rose in our operations in Brazil, although this was more than offset by an increase in interest expense.

Interest income on loans and advances to customers was higher. In Mexico and Argentina, this was due to higher yields following central bank interest rate rises. In Europe, the increase was mainly driven by balance growth in term lending in the UK despite lower yields on mortgages in line with competitive pricing, and the effect of downward movements in market interest rates in the eurozone. In Asia, although yields on lending increased marginally in Hong Kong and Singapore, customer lending income was broadly unchanged as the increase in yields was offset by the impact

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Financial summary (continued)

of central bank rate decreases in various countries, notably mainland China, and from a decrease in average balances. However, in North America, interest income from customer lending fell from continued run-off and sales in the US CML run-off portfolio.

Interest income on short-term funds and financial investments marginally increased. This was driven by a change in product mix in North America towards higher-yielding, mortgage-backed securities in order to maximise the effectiveness of the portfolio and, to a lesser extent, in Argentina from balance growth. These increases were partly offset by reductions in Europe from lower yields.

Interest income on reverse repurchase agreements – non trading was higher, driven by higher balances and market rates in North America.

Interest expense

Reported interest expense fell by \$0.3bn compared with 1H15 driven by currency translation, primarily in Latin America and Europe.

Excluding this, interest expense rose \$0.4bn as decreases in Asia were partly offset by an increase in cost in North America, Europe and Argentina.

Interest expense on customer accounts fell despite growth in average balances. This reflected a change in mix towards lower cost accounts in Hong Kong and central bank rate reductions in a number of markets, notably mainland China and Australia. This was partly offset by higher interest expense on customer accounts in North America, in line with promotional deposit offerings, and in Argentina from central bank rate rises.

Interest expense on debt issued rose, due to a rise in the cost of funds, despite a fall in average balances as redemptions across the Group were more than offset by issuances of senior debt from HSBC Holdings plc. The increase in the cost of debt was driven by a combination of market sentiment as well as longer maturities and the structural subordination of our new issuances. In addition, Interest expense rose on repos, notably in North America, reflecting higher balances and market rates.

Net fee income

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	\$m	\$m	\$m
Account services	1,310	1,383	1,362
Funds under management	1,172	1,310	1,260
Cards	1,010	1,120	1,161
Credit facilities	908	989	930
Broking income	530	817	624
Imports/exports	436	485	486
Unit trusts	412	595	412
Underwriting	372	450	312
Remittances	371	387	385
Global custody	330	371	350
Insurance agency commission	228	284	235
Other	1,123	1,181	1,127
Fee income	8,202	9,372	8,644
Less: fee expense	(1,616)	(1,647)	(1,664)

Net fee income 6,586 7,725 6,980

Reported net fee income fell by \$1.1bn compared with 1H15, partly reflecting the adverse effects of currency translation between the periods of \$0.3bn, notably in Asia and Europe.

Significant items and currency translation

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	\$m	\$m	\$m
Significant items	—	—	—
Currency translation		295	132
Total	—	295	132

On an adjusted basis, net fee income decreased by \$844m, driven by a reduction in Hong Kong, primarily within RBWM. This partly reflected the effect of weaker equity markets and

risk-averse investor sentiment in Asia. Net fee income also decreased in Switzerland within GPB.

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Fee income from broking and unit trusts fell by \$443m, compared with a strong performance in 1H15. The decrease was mainly in Hong Kong, driven by lower securities broking income and falling fund sales in RBWM, in part reflecting a reduction in stock market turnover of 46%.

Fee income from funds under management also decreased, by \$108m. This was partly driven by lower fees in our Global Asset Management business in RBWM following a reduction in funds under management balances as a result of adverse market conditions, notably in Europe. Fee income from funds under management also decreased in Switzerland in GPB.

Net trading income

	Half-year to		
	30 Jun 2016 \$m	30 Jun 2015 \$m	31 Dec 2015 \$m
Trading activities	5,020	3,553	3,732
Net interest income on trading activities	730	1,053	722
Loss on termination of hedges	—	(8)	(3)
Other trading income/(expense) – hedge ineffectiveness:			
– on cash flow hedges	4	4	11
– on fair value hedges	(41)	26	(37)
Fair value movement on non-qualifying hedges	(389)	(55)	(275)
Net trading income	5,324	4,573	4,150

Reported net trading income of \$5.3bn was \$0.8bn higher than in 1H15. This included significant items and currency translation summarised in the table below.

Significant items and currency translation

	Half-year to		
	30 Jun 2016 \$m	30 Jun 2015 \$m	31 Dec 2015 \$m
Included within trading activities:			
– favourable debit valuation adjustment on derivative contracts	151	165	65
Other significant items:			
– adverse fair value movements on non-qualifying hedges	(397)	(45)	(282)
Currency translation	(246)	120	(217)
		237	210
Total	(246)	357	(7)

On an adjusted basis, net trading income from trading activities increased by \$1.4bn, primarily driven by favourable movements of \$1.3bn in the period compared with adverse movements of \$0.6bn in 1H15 on assets held as economic hedges of foreign currency debt designated at fair value. Both these movements were offset by adverse movements on foreign currency debt designated at fair value in 'Net income from financial instruments designated at fair value'.

Excluding these movements, trading income decreased by \$0.6bn, primarily in GB&M. Income decreased in Equities and Foreign Exchange, due to market volatility that led to reduced client activity. This was partly offset by an increase in revenue from our Rates business which benefited from increased client activity.

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Financial summary (continued)

Net income from financial instruments designated at fair value

	Half-year to		
	30 Jun 2016 \$m	30 Jun 2015 \$m	31 Dec 2015 \$m
Net income/(expense) arising from:			
– financial assets held to meet liabilities under insurance and investment contracts	209	1,615	(1,084)
– liabilities to customers under investment contracts	30	(301)	335
– HSBC’s long-term debt issued and related derivatives	270	1,324	(461)
– change in own credit spread on long-term debt (significant item)	1,226	650	352
– other changes in fair value	(956)	674	(813)
– other instruments designated at fair value and related derivatives	52	28	76
Net income from financial instruments designated at fair value	561	2,666	(1,134)

Assets and liabilities from which net income from financial instruments designated at fair value arose

	At	
	30 Jun 2016 \$m	31 Dec 2015 \$m
Financial assets designated at fair value	23,901	23,852
Financial liabilities designated at fair value	78,882	66,408

Including:

Financial assets held to meet liabilities under:		
– insurance contracts and investment contracts with DPF	11,438	11,119
– unit-linked insurance and other insurance and investment contracts	11,206	11,153
Long-term debt issues designated at fair value	72,660	60,188

The majority of our financial liabilities designated at fair value are fixed-rate, long-term debt issuances, and are managed in conjunction with interest rate swaps as part of our interest rate management strategy.

These liabilities are discussed further on page 359 of the Annual Report and Accounts 2015.

Reported net income from financial instruments designated at fair value was \$0.6bn in 1H16, compared with \$2.7bn in 1H15. The former included favourable movements in the fair value of our own long-term debt of \$1.2bn due to changes in credit spread, compared with favourable movements of \$650m in 1H15.

Significant items and currency translation

	Half-year to		
	30 Jun 2016 \$m	30 Jun 2015 \$m	31 Dec 2015 \$m
Significant items			
– own credit spread	1,226	650	352

Currency translation	152	(60)
Total	1,226	802	292

On an adjusted basis, which excludes changes in our own credit spread and the net adverse effect of currency translation shown above, net income from financial instruments designated at fair value decreased by \$2.5bn. Net income from financial assets held to meet liabilities under insurance and investment contracts of \$209m was \$1.4bn lower than in 1H15. This was primarily driven by weaker equity markets in France, Hong Kong and the UK. The \$1.4bn change was, however, broadly offset by ‘liabilities to customers under investment contracts’, and by ‘Net insurance claims and benefits paid and movements in liabilities to policyholders’ which are described on page 32.

Investment gains or losses arising from equity markets result in a corresponding movement in liabilities to customers. This reflects the extent to which unit-linked policyholders, in particular, participate in the investment performance of the associated asset portfolio.

Where the gains or losses are recorded depends on the contract type. When gains or losses relate to assets held to back investment contracts, the corresponding movement in liabilities to customers is recorded in ‘Net income/(expense) from financial instruments designated at fair value’.

When gains or losses related to assets held to back insurance contracts or investment contracts with discretionary participation features (‘DPF’), any corresponding movement

in liabilities to customers is recorded in 'Net insurance claims and benefits paid and movement in liabilities to policyholders', which is detailed on page 32.

Other changes in fair value on our long-term debt and related derivatives primarily reflected:

In GB&M, adverse movements of \$1.3bn, compared to favourable movements of \$0.6bn in 1H15, on foreign

currency debt designated at fair value and issued as part of our overall funding strategy (offset by assets held as economic hedges in 'Net trading income').

This was partly offset by:

In 'Other', favourable fair value movements of \$0.4bn, compared with minimal movements in 1H15, relating to the economic hedging of interest and exchange rate risk on our long-term debt.

Gains less losses from financial investments

	Half-year to		
	30 Jun 2016 \$m	30 Jun 2015 \$m	31 Dec 2015 \$m
Net gains from disposal of:			
– debt securities	280	310	35
– equity securities	693	1,578	251
– other financial investments	4	4	1
	977	1,892	287
Impairment of available-for-sale equity securities	(12)	(18)	(93)
Gains less losses from financial investments	965	1,874	194

In 1H16, gains less losses from financial investments decreased by \$0.9bn on a reported basis compared with 1H15. This was driven by the significant items and currency translation tabulated below, notably the non-recurrence of

the gain on the partial sale of our shareholding in Industrial Bank of \$1.4bn in 1H15, and in 1H16 a gain on disposal of our membership interest in Visa Europe.

Significant items and currency translation

	Half-year to		
	30 Jun 2016 \$m	30 Jun 2015 \$m	31 Dec 2015 \$m
Significant items			
– gain on disposal of our membership interest in Visa Europe	584	—	—
– gain on the partial sale of shareholding in Industrial Bank	—	1,372	—
	584	1,372	—
Currency translation		19	8
Total	584	1,391	8

On an adjusted basis, excluding all significant items and currency translation tabulated above, gains less losses from financial investments decreased by \$102m, driven by GB&M.

This was primarily driven by lower gains on equity securities in both Markets and Principal Investments.

Net insurance premium income

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	\$m	\$m	\$m
Gross insurance premium income	5,728	5,855	5,157
Reinsurance premiums	(372)	(248)	(409)
Net insurance premium income	5,356	5,607	4,748

Reported net insurance premium income was \$0.3bn lower than in 1H15, largely due to adverse effects of currency translation \$159m.

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Financial summary (continued)

Significant items and currency translation

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	\$m	\$m	\$m
Significant items	—	—	—
Currency translation		159	20
Total	—	159	20

On an adjusted basis, excluding the effects of currency translation, net insurance premium income fell by \$92m or 2%. This was largely driven by the disposal of our UK pensions business in 2H15, following our decision to exit the UK commercial pension market in 2014, and lower participating contract premiums in France.

In Asia, increased premiums in Singapore and Hong Kong on participating contracts were partly offset by the impact of new reinsurance agreements in Hong Kong.

Other operating income

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	\$m	\$m	\$m
Rent received	82	84	87
Gains/(losses) recognised on assets held for sale	57	34	(278)
(Losses)/gains on investment properties	(3)	33	28
Gains on disposal of property, plant and equipment, intangible assets and non-financial investments	28	26	27
Change in present value of in-force long-term insurance business	351	438	361
Other	129	221	(6)
Other operating income	644	836	219
Change in present value of in-force long-term insurance business			

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	\$m	\$m	\$m
Value of new business	458	438	371
Expected return	(266)	(279)	(273)
Assumption changes and experience variances	172	241	263
Other adjustments	(13)	38	—
Change in present value of in-force long-term insurance business	351	438	361

Reported other operating income decreased by \$192m from 1H15. This included the effects of the significant items recorded in the table below.

Significant items and currency translation

	Half-year to		
	30 Jun 2016 \$m	30 Jun 2015 \$m	31 Dec 2015 \$m
Significant items			
Included within gains recognised on assets held for sale:	36	17	(249)
– disposal costs of Brazilian operations	(32)	—	(18)
– gain/(loss) on sale of several tranches of real estate secured accounts in the US	68	17	(231)
Currency translation		39	23
Total	36	56	(226)

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Excluding the significant items and currency translation tabulated above, other operating income decreased by \$172m compared with 1H15. This was primarily from lower favourable movements in present value of in-force ('PVIF') long-term insurance business and minimal movement in valuations on investment properties compared with gains in 1H15, mainly in Asia.

The lower favourable movement in PVIF in 2016 was primarily driven by decreasing yields in France, partly offset by the favourable effects of changes to interest rate assumptions in Singapore.

In addition, 1H15 included a change in interest rate assumption in France which had the effect of increasing PVIF.

Net insurance claims and benefits paid and movement in liabilities to policyholders

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	\$m	\$m	\$m
Insurance claims and benefits paid and movement in liabilities to policyholders:			
– gross	6,192	7,099	4,773
– reinsurers' share	(402)	(249)	(331)
Net total	5,790	6,850	4,442

Reported net insurance claims and benefits paid and movement in liabilities to policy holders were \$1.1bn lower than in 1H15, in part reflecting the currency translation movements of \$0.2bn.

Significant items and currency translation

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	\$m	\$m	\$m
Significant items	—	—	—
Currency translation		217	19
Total	—	217	19

Excluding the effects of currency translation, net insurance claims and benefits paid and movements in liabilities to policyholders were \$0.8bn lower than in 1H15.

This reduction was primarily in Europe, and to a lesser extent Hong Kong, reflecting a decrease in returns on financial assets supporting liabilities to policyholders where the policyholder is exposed to investment risk. This decrease in returns reflected weaker equity market performance in France, Hong Kong and the UK.

Other drivers were reduced surrenders in Hong Kong and the impact of the sale of the UK pensions business in 2015. These reductions were partly offset by increases in liabilities to policyholders in Singapore, as a result of changes to interest rate assumptions.

The gains or losses recognised on the financial assets designated at fair value that are held to support these insurance contract liabilities are reported in 'Net income from financial instruments designated at fair value' on page 29.

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Financial summary (continued)

Loan impairment charges and other credit risk provisions

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	\$m	\$m	\$m
Loan impairment charges			
– new allowances net of allowance releases	2,623	1,797	2,603
– recoveries of amounts previously written off	(340)	(350)	(458)
	2,283	1,447	2,145
– individually assessed allowances	1,263	480	1,025
– collectively assessed allowances	1,020	967	1,120
Impairment allowances/(release) of available-for-sale debt securities	34	(38)	21
Other credit risk provisions	49	30	116
Loan impairment charges and other credit risk provisions	2,366	1,439	2,282
	%	%	%
Impairment charges on loans and advances to customers as a percentage of average gross loans and advances to customers (annualised)	0.52	0.31	0.47

Reported loan impairment charges and other credit risk provisions ('LICs') of \$2.4bn were \$927m higher than in 1H15. This included favourable currency translation of \$160m.

Significant items and currency translation

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	\$m	\$m	\$m
Significant items	—	—	—
Currency translation		160	19
Total	—	160	19

Excluding the effects of currency translation, LICs were \$1.1bn higher than in 1H15. This was due to an increase in Brazil (up by \$346m) reflecting a deterioration in local economic conditions, as well as higher individually assessed charges in a small number of countries, notably in the oil and gas sector.

On an adjusted basis, individually assessed LICs were \$1.3bn, an increase of \$822m compared with 1H15. This primarily reflected increases in our GB&M and CMB businesses and included the following:

In North America (up by \$495m), individually assessed LICs increased in our GB&M business in the US. This was primarily related to a significant specific charge on a mining related corporate exposure, as well as charges in the oil and gas sector. In addition, individually assessed LICs also increased in CMB in both Canada and the US, mainly in the oil and gas sector.

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In Asia (up by \$125m), individually assessed charges increased, notably in our GB&M business in Australia, primarily driven by a small number of charges related to metals and mining exposures. In addition, the comparative period benefited from a release of allowances in Hong Kong.

In Europe (up by \$140m), individually assessed charges increased. This was mainly in the UK in our RBWM business due to net charges on individually assessed mortgage balances, compared with a net release in 1H15. Also, in Spain there were higher charges in CMB related to the construction sector.

In Latin America (up by \$47m), individually assessed charges increased, primarily in Brazil due to the deterioration of economic conditions.

On an adjusted basis, collectively assessed LICs rose by \$173m, mainly in RBWM and, to a lesser extent, in CMB. The increase arose from:

In Latin America collectively assessed LICs increased by \$281m. This was mainly in Brazil (up by \$217m) in both our RBWM and CMB businesses, where delinquency rates increased following the deterioration of economic conditions. In addition, LICs rose in Mexico in our RBWM business in line with our strategic focus on growing unsecured lending.

This was partly offset by:

In North America (down by \$45m) LICs decreased in our CMB and GB&M businesses as collectively assessed provisions related to the oil and gas sector were replaced with individually assessed LICs against specific clients in this sector (as discussed earlier). This was partly offset by an increase in our RBWM US CML run-off portfolio.

In Europe, collectively assessed LICs decreased by \$26m, mainly our RBWM business. This reflected a reduction in Turkey from favourable credit performance on unsecured lending, as well as net release of allowances in Greece. This was partly offset by an increase in our CMB business in the UK, primarily reflecting new allowances against exposures in the oil and gas sector.

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In 1H16, we recorded net impairment allowances on available-for-sale debt securities compared with net releases in 1H15. Both primarily related to asset-backed securities ('ABSs') in our UK GB&M business.

Operating expenses

In addition to detailing operating expense items by category, as set out in the table below, we also categorise adjusted expenses as follows:

- 'Run-the-bank' costs comprise business-as-usual running costs that keep operations functioning at the required quality and standard year on year, maintain IT infrastructure and support revenue growth. Run-the-bank costs are split between front office and back office, reflecting the way the Group is organised into four global businesses ('front office') supported by global functions ('back office').
- 'Change-the-bank' costs comprise expenses relating to the implementation of mandatory regulatory changes and other investment costs incurred relating to projects to change

business-as-usual activity to enhance future operating capabilities.

- 'Costs-to-achieve' comprise those specific costs relating to the achievement of the strategic actions set out in the Investor Update in June 2015. They comprise costs incurred between 1 July 2015 and 31 December 2017 and do not include ongoing initiatives such as Global Standards. Any costs arising within this category have been incurred as part of a significant transformation programme. Costs-to-achieve are included within significant items and incorporate restructuring costs which were identified as a separate significant item prior to 1 July 2015.

The UK bank levy is reported as a separate category.

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	\$m	\$m	\$m
By expense category			
Employee compensation and benefits	9,354	10,041	9,859
Premises and equipment (excluding depreciation and impairment)	1,901	1,939	1,891
General and administrative expenses	5,566	6,190	7,642
Administrative expenses	16,821	18,170	19,392
Depreciation and impairment of property, plant and equipment	605	604	665
Amortisation and impairment of intangible assets and goodwill	1,202	413	524
Operating expenses	18,628	19,187	20,581

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	\$m	\$m	\$m
By expense group			
Run-the-bank – front office	7,583	7,756	7,511
Run-the-bank – back office	7,036	7,161	7,307
Change-the-bank	1,454	1,733	1,739

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Bank levy	(128)	(44)	1,465
Significant items	2,683	1,544	2,040
Currency translation		1,037	519
Operating expenses	18,628	19,187	20,581
Staff numbers (full-time equivalents)			
	At		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
Geographical regions			
Europe	65,387	69,867	67,509
Asia	119,699	120,588	120,144
Middle East and North Africa	7,693	8,208	8,066
North America	18,838	20,338	19,656
Latin America	39,719	40,787	39,828
Staff numbers	251,336	259,788	255,203

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Financial summary (continued)

Reported operating expenses of \$18.6bn were \$0.6bn or 3% lower than in 1H15, which included an impairment of \$0.8bn relating to the goodwill in our GPB business in Europe (please see Note 20 for further details). The lower operating

expenses benefited from the favourable effects of currency translation of \$1.0bn, partly offset by a \$1.1bn increase in significant items.

Significant items and currency translation

	Half-year to		
	30 Jun 2016 \$m	30 Jun 2015 \$m	31 Dec 2015 \$m
Significant items			
– costs-to-achieve	1,018	—	908
– costs to establish UK ring-fenced bank	94	—	89
– disposal costs of Brazilian operations	11	—	110
– impairment of Global Private Banking – Europe goodwill	800	—	—
– regulatory provisions in GPB	4	147	25
– restructuring and other related costs	—	117	—
– settlements and provisions in connection with legal matters	723	1,144	505
– UK customer redress programmes	33	137	404
	2,683	1,545	2,041
Currency translation		1,037	519
Total	2,683	2,582	2,560

On an adjusted basis, operating expenses of \$15.9bn were \$0.7bn lower than in 1H15, despite inflationary pressures and increases in regulatory programmes and compliance costs. This primarily reflected transformational cost savings of \$0.9bn achieved in 1H16. On a run-rate basis, we are now approximately 40% of the way towards achieving the cost savings target we committed to in our Investor Update in June 2015.

Run-the-bank costs of \$14.6bn were \$0.3bn lower than in 1H15 and change-the-bank costs of \$1.5bn were \$0.3bn lower than in 1H15. This reflected the following factors:

In RBWM, costs were \$0.3bn lower, reflecting the effects of our transformational cost initiatives, which included our branch optimisation programme.

In GB&M, costs were \$0.2bn lower, reflecting lower performance-related costs, primarily in Europe and Asia, and the effects of our transformational cost initiatives, including significantly lower headcount and better use of our shared global service centres.

In GPB, costs were \$0.1bn lower, reflecting a fall in staff costs from lower FTEs, primarily in Europe and Asia.

In CMB, costs remained broadly unchanged due to strong cost discipline and delivery of transformation initiatives, including a more simplified organisation structure and process optimisation within our lending, on-boarding and servicing platforms.

The cost savings in the global businesses noted above were also supported by the benefits of transformational activities in our technology, operations and other functions, primarily from process automation and organisational

re-design.

Included within the above, our total expenditure on regulatory programmes and compliance, comprising both run-the-bank and change-the-bank elements, was \$1.5bn, up \$0.2bn or 14% from 1H15. This reflected the continued implementation of our Global Standards programme to enhance our financial crime risk controls and capabilities, and to meet our external commitments.

Excluding investment in regulatory programmes and compliance, and credits relating to the prior year bank levy in both periods, adjusted operating expenses declined by \$0.8bn or 5% compared with 1H15.

The number of employees expressed in FTEs at 30 June 2016 was 251,336, a decrease of 3,867 from 31 December 2015. This was driven by reductions in global businesses and global functions, partly offset by investment related to financial crime risk of 540 FTEs, and cost-to-achieve FTEs of 3,918.

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Reported cost efficiency ratios

	Half-year to		
	30 Jun 2016 %	30 Jun 2015 %	31 Dec 2015 %
HSBC	63.2	58.2	76.6
Geographical regions			
Europe	82.2	78.3	112.2
Asia	44.6	38.8	48.3
Middle East and North Africa	41.9	48.4	47.8
North America	83.1	79.7	91.0
Latin America	68.8	67.6	78.5
Global businesses			
Retail Banking and Wealth Management	70.2	67.1	78.3
Commercial Banking	41.9	44.1	46.7
Global Banking and Markets	53.3	56.4	63.3
Global Private Banking	158.8	85.0	83.5

Share of profit in associates and joint ventures

	Half-year to		
	30 Jun 2016 \$m	30 Jun 2015 \$m	31 Dec 2015 \$m
Associates			
Bank of Communications Co., Limited	974	1,021	990
The Saudi British Bank	244	240	222
Other	8	25	20
Share of profit in associates	1,226	1,286	1,232
Share of profit in joint ventures	12	25	13
Share of profit in associates and joint ventures	1,238	1,311	1,245

Our reported share of profit in associates and joint ventures was \$1.2bn, a decrease of \$73m or 6%, largely from adverse effects of currency translation of \$55m.

On an adjusted basis, share of profit in associates and joint ventures fell by \$18m or 1%, primarily relating to HSBC Saudi Arabia, reflecting challenging stock market and economic conditions.

Tax expense

Half-year to		
30 Jun 2016	30 Jun 2015	31 Dec 2015

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	\$m	\$m	\$m
Profit before tax	9,714	13,628	5,239
Tax expense	(2,291)	(2,907)	(864)
Profit after tax	7,423	10,721	4,375
Effective tax rate	23.6 %	21.3%	16.5 %

The effective tax rate for 1H16 of 23.6% was higher than the 21.3% in 1H15, principally due to the 8% surcharge on UK banking profits.

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Financial summary (continued)

Consolidated balance sheet

Summary consolidated balance sheet

	At	
	30 Jun	31 Dec
	2016	2015
	\$m	\$m
Assets		
Cash and balances at central banks	128,272	98,934
Trading assets	280,295	224,837
Financial assets designated at fair value	23,901	23,852
Derivatives	369,942	288,476
Loans and advances to banks	92,199	90,401
Loans and advances to customers	887,556	924,454
Reverse repurchase agreements – non-trading	187,826	146,255
Financial investments	441,399	428,955
Assets held for sale	50,305	43,900
Other assets	146,454	139,592
Total assets	2,608,149	2,409,656
Liabilities and equity		
Liabilities		
Deposits by banks	69,900	54,371
Customer accounts	1,290,958	1,289,586
Repurchase agreements – non-trading	98,342	80,400
Trading liabilities	188,698	141,614
Financial liabilities designated at fair value	78,882	66,408
Derivatives	368,414	281,071
Debt securities in issue	87,673	88,949
Liabilities under insurance contracts	73,416	69,938
Liabilities of disposal groups held for sale	43,705	36,840
Other liabilities	109,864	102,961
Total liabilities	2,409,852	2,212,138
Equity		
Total shareholders' equity	191,257	188,460
Non-controlling interests	7,040	9,058
Total equity	198,297	197,518
Total liabilities and equity	2,608,149	2,409,656

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Selected financial information

	At	
	30 Jun	31 Dec
	2016	2015
	\$m	\$m
Called up share capital	9,906	9,842
Capital resources	186,793	189,833
Undated subordinated loan capital	1,968	2,368
Preferred securities and dated subordinated loan capital	42,170	42,844
Risk-weighted assets	1,082,184	1,102,995
Financial statistics		
Loans and advances to customers as a percentage of customer accounts	68.8	71.7
Average total shareholders' equity to average total assets	7.44	7.31
Net asset value per ordinary share at period end (\$)	8.75	8.73
Number of \$0.50 ordinary shares in issue (millions)	19,813	19,685
Closing foreign exchange translation rates to \$:		
\$1: £	0.744	0.675
\$1: €	0.900	0.919

A more detailed consolidated balance sheet is contained in the Financial Statements on page 109.

Combined view of customer lending and customer deposits

	At	
	30 Jun	31 Dec
	2016	2015
	Footnotes \$m	\$m
Loans and advances to customers	887,556	924,454
Loans and advances to customers reported in 'Assets held for sale'	20,711	19,021
– Brazil	5	17,001
– other	1,508	2,020
Combined customer lending	908,267	943,475
Customer accounts	1,290,958	1,289,586
Customer accounts reported in 'Liabilities of disposal groups held for sale'	20,531	16,682
– Brazil	5	15,094
– other	1,174	1,588
Combined customer deposits	1,311,489	1,306,268
For footnote, see page 65.		

Movement from 31 December 2015 to 30 June 2016

Total reported assets of \$2.6tn were 8% higher than at 31 December 2015 on a reported basis and 11% higher on a constant currency basis. This was driven by increased derivative assets and trading assets, notably settlement accounts.

Our ratio of customer advances to customer accounts was 69%. Loans and advances to customers fell on a reported basis while customer accounts increased on a reported basis. These changes included:

adverse currency translation movement of \$24bn on loans and advances to customers and \$31bn on customer accounts; and

an \$8bn reduction in corporate overdraft and current account balances relating to a small number of clients in our Global Liquidity and Cash Management business in the UK who settled their overdraft and deposit balances on a net basis, with these customers increasing the frequency with which they settled their positions.

Excluding these movements, customer lending decreased by \$5bn, partly due to reductions in our legacy portfolios.

Assets

Derivative assets increased by \$81bn or 28%, driven by valuation movements in interest rate contracts, reflecting downward shifts in major yield curves, notably in the UK and to a lesser extent in France.

Trading assets increased by \$55bn, driven by higher settlement account balances in Europe and North America and an increase in holding of debt securities, primarily in Asia. By contrast, Europe was affected by decreases in equity securities.

Reverse repurchase agreements – non-trading increased by \$42bn, notably in Europe and North America, the latter reflecting deployment of surplus liquidity from cash balances.

Loans and advances to customers decreased by \$37bn on a reported basis, driven by Europe and to a lesser extent Asia. This included:

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Financial summary (continued)

- adverse currency translation movements of \$24bn; and
- an \$8bn reduction in corporate overdraft balances in Europe, with a corresponding fall in corporate customer accounts.

Excluding these factors, customer lending balances decreased by \$5bn, partly reflecting our strategic focus on reducing our legacy portfolio. In North America this included a \$5.7bn transfer to 'Assets held for sale' of US first lien mortgage balances in RBWM. We disposed of most of these transferred loans during 1H16.

Balances also fell in Asia by \$6bn, although they stabilised in the second quarter of 2016. Lending fell in CMB by \$5bn, notably in Hong Kong and Singapore, particularly in trade lending. The fall in Hong Kong reflected weakened client demand and corporates in mainland China reverting back to mainland China from Hong Kong for financing as interest rates between Hong Kong and mainland China narrowed. By contrast, balances increased in Europe by \$8bn, primarily reflecting higher term lending in CMB and GB&M, notably in the UK.

Liabilities

Derivative liabilities increased by \$87bn in line with the movements of derivative assets as the underlying risk was broadly matched.

Trading liabilities increased by \$47bn, primarily in Europe and North America, partly driven by an increase in settlement accounts.

Customer accounts were broadly in line with balances at 31 December 2015 and included:

- adverse currency translation movements of \$31bn; and
- an \$8bn reduction in corporate current account balances, in line with a fall in corporate overdraft positions.

Excluding these factors, customer accounts grew by \$38bn, mainly in the UK, driven by increases in GB&M and RBWM, and in Hong Kong, notably in RBWM.

Equity

Total shareholders' equity was broadly unchanged. The effects of profits generated in the period and the issue of new contingent convertible securities of \$2.0bn were broadly offset by the effects of dividends paid and an increase in accumulated foreign exchange losses. Movements in the foreign exchange reserves reflected the depreciation of sterling against the US dollar, although this was partly offset by appreciation in other currencies, including the euro and Canadian dollar.

Customer accounts by country

	At	
	30 Jun 2016	31 Dec 2015
	\$m	\$m
Europe	482,992	497,876
– UK	383,958	404,084
– France	39,896	35,635
– Germany	16,141	13,873
– Switzerland	8,820	10,448
– other	34,177	33,836
Asia	610,200	598,620
– Hong Kong	433,136	421,538
– Australia	18,655	17,703
– India	12,159	11,795
– Indonesia	5,738	5,366

– Mainland China	41,897	46,177
– Malaysia	14,233	14,114
– Singapore	43,578	41,307
– Taiwan	12,321	11,812
– other	28,483	28,808
Middle East and North Africa (excluding Saudi Arabia)	35,094	36,468
– Egypt	6,255	6,602
– United Arab Emirates	17,641	18,281
– other	11,198	11,585
North America	142,152	135,152
– US	90,646	86,322
– Canada	42,355	39,727
– other	9,151	9,103
Latin America	20,520	21,470
– Mexico	14,854	15,798
– other	5,666	5,672
At end of period	1,290,958	1,289,586

Risk-weighted assets

Risk-weighted assets totalled \$1,082bn at 30 June 2016, a decrease of \$21bn or 2% from 31 December 2015, reflecting targeted RWA initiatives and the effects of currency translation, partly offset by balance sheet growth and RWA increases as a result of credit quality deterioration. In 1H16, RWA initiatives resulted in a reduction of \$48bn and included asset sales in the GB&M legacy and US CML run-off portfolios, reduced exposures, refined calculations and process improvements.

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Reconciliation of RoRWA measures

Performance management

We target a return on average ordinary shareholders' equity of greater than 10%. For internal management purposes we monitor global businesses and geographical regions by pre-tax return on average risk-weighted assets ('RoRWA'), a metric which combines return on equity and regulatory capital efficiency objectives. This metric is calibrated against return on equity ('ROE') and capital requirements to ensure that we are best placed to achieve capital strength and business profitability combined with regulatory capital efficiency objectives.

In addition to the pre-tax return on average risk-weighted assets ('RoRWA'), we measure our performance internally using the non-GAAP measure of adjusted RoRWA, which is adjusted profit before tax as a percentage of average risk-weighted assets adjusted for the effects of foreign currency translation differences and significant items. Excluded from adjusted RoRWA are certain items which distort period-on-period performance as explained on page 24.

Reconciliation of adjusted RoRWA

	Half-year to 30 Jun 2016			Half-year to 30 Jun 2015			Half-year to 31 Dec 2015		
	Pre-tax return	Average RWAs	RoRWA ₆	Pre-tax return	Average RWAs	RoRWA ₆	Pre-tax return	Average RWAs	RoRWA ₆
Footnotes	\$m	\$bn	%	\$m	\$bn	%	\$m	\$bn	%
Reported	9,714	1,100	1.8				5,239	1,147	0.9
Adjusted 6	10,795	1,100	2.0				7,161	1,129	1.3

For footnote, see page 65.

Reconciliation of reported and adjusted average risk-weighted assets

	Half-year to 30 Jun 2016			Half-year to 30 Jun 2015			30 Jun 2016			31 Dec 2015		
	Footnotes	\$bn	\$bn	Change	\$bn	\$bn	Change	\$bn	\$bn	Change	\$bn	
Average reported RWAs		1,100	1,208	(9)	1,100	1,147	(4)					
Currency translation adjustment	7	—	(40)	()	—	(18)	()					
Acquisitions, disposals and dilutions		—	(5)	()	—	—	()					

Average adjusted RWAs 1,100 1,163 (5) 1,100 1,129 (3)

For footnote, see page 65.

Ratios of earnings to combined fixed charges

	(and preference share dividends)						
Footnotes	Half-year to 30 Jun 2016	Year ended 31 Dec					
	2016	2015	2014	2013	2012	2011	

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Ratios of earnings to fixed charges:	1						
- excluding interest on deposits		3.64	3.68	3.39	3.84	3.03	2.82
- including interest on deposits		2.07	2.00	1.86	2.09	1.76	1.68

Ratios of earnings to fixed charges and preference share dividends:	1						
- excluding interest on deposits		2.95	3.05	3.07	3.50	2.79	2.64
- including interest on deposits		1.89	1.85	1.79	2.01	1.71	1.64

For the purpose of calculating the ratios, earnings consist of income from continuing operations before taxation and non-controlling interest plus fixed charges and after deduction of the unremitted pre-tax income of associated undertakings. Fixed charges consist of total interest expense, including or excluding interest on deposits, as appropriate, dividends on preference shares and other equity instruments, as applicable, and the proportion of rental expense deemed representative of the interest factor.

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Global businesses

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Summary

HSBC reviews operating activity on a number of bases, including by geographical region and by global business. We present global businesses followed by geographical regions because certain strategic themes, business initiatives and trends affect more than one geographical region.

Basis of preparation

The results of our global businesses are presented in accordance with the accounting policies used in the preparation of HSBC's consolidated financial statements. Our operations are closely integrated and, accordingly, the presentation of global business data includes internal allocations of certain items of income and expense. These allocations include the costs of some support services and global functions to the extent that they can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Those costs which are not allocated to global businesses are included in 'Other'.

Where relevant, income and expense amounts presented include the results of inter-segment funding as well as inter-company and inter-business line transactions. All such transactions are undertaken on arm's length terms. The expense of the UK bank levy is included in the Europe geographical region as we regard the levy as a cost of being headquartered in the UK. For the purposes of the segmentation by global businesses, the cost of the levy is included in 'Other'.

Profit/(loss) before tax

	30 Jun 2016		Half-year to		31 Dec 2015	
	Footnotes \$m	%	\$m	%	\$m	%
Retail Banking and Wealth Management	2,382	24.5	3,362	24.7	1,605	30.6
Commercial Banking	4,304	44.3	4,523	33.2	3,450	65.9
Global Banking and Markets	4,006	41.2	4,754	34.9	3,156	60.2
Global Private Banking	(557)	(5.7)	180	1.3	164	3.1
Other	8 (421)	(4.3)	809	5.9	(3,136)	(59.8)
	9,714	100.0	13,628	100.0	5,239	100.0

Total assets⁹

At		31 Dec 2015	
30 Jun 2016		\$m	%
\$m	%	\$m	%

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Retail Banking and Wealth Management	470,245	18.0	473,284	19.6
Commercial Banking	355,388	13.6	365,290	15.2
Global Banking and Markets	1,873,474	71.8	1,616,704	67.1
Global Private Banking	79,068	3.0	81,448	3.4
Other	179,853	7.0	147,417	6.1
Intra-HSBC items	(349,879)	(13.4)	(274,487)	(11.4)
	2,608,149	100.0	2,409,656	100.0

Risk-weighted assets

	At			
	30 Jun 2016		31 Dec 2015	
	\$bn	%	\$bn	%
Retail Banking and Wealth Management	176.1	16.3	189.5	17.2
Commercial Banking	414.8	38.3	421.0	38.2
Global Banking and Markets	437.1	40.4	440.6	39.9
Global Private Banking	18.5	1.7	19.3	1.7
Other	35.7	3.3	32.6	3.0
	1,082.2	100.0	1,103.0	100.0

For footnotes, see page 65.

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Retail Banking and Wealth Management

RBWM provides banking and wealth management services for our personal customers to help them secure their future prosperity and realise their ambitions.

	Footnotes	Principal RBWM consists of					
		Total RBWM \$m	US run-off portfolio \$m	Principal RBWM ₁₀ \$m	Banking operations \$m	Insurance manufacturing \$m	Asset management \$m
Half-year to 30 Jun 2016							
Net interest income		7,724	388	7,336	6,433	901	2
Net fee income/(expense)		2,576	(2)	2,578	2,418	(304)	464
Other income/(loss)	11	817	(19)	836	769	46	21
Net operating income	12	11,117	367	10,750	9,620	643	487
LICs	13	(1,120)	(97)	(1,023)	(1,023)	—	—
Net operating income		9,997	270	9,727	8,597	643	487
Total operating expenses		(7,808)	(846)	(6,962)	(6,413)	(210)	(339)
Operating profit/(loss)		2,189	(576)	2,765	2,184	433	148
Income from associates	14	193	—	193	173	14	6
Profit/(loss) before tax		2,382	(576)	2,958	2,357	447	154
RoRWA		2.6	% (3.3)	% 4.0	%		
Half-year to 30 Jun 2015							
Net interest income		8,054	536	7,518	6,664	850	4
Net fee income/(expense)		3,334	(2)	3,336	3,079	(282)	539
Other income	11	1,054	46	1,008	397	595	16
Net operating income	12	12,442	580	11,862	10,140	1,163	559
LICs	13	(934)	(47)	(887)	(887)	—	—
Net operating income		11,508	533	10,975	9,253	1,163	559
Total operating expenses		(8,354)	(688)	(7,666)	(7,076)	(219)	(371)
		3,154	(155)	3,309	2,177	944	188

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Operating profit/(loss)							
Income from associates	14	208	—	208	178	11	19
Profit/(loss) before tax		3,362	(155)	3,517	2,355	955	207
RoRWA		3.3	% (0.6)	% 4.6	%		
Half-year to 31 Dec 2015							
Net interest income		7,872	497	7,375	6,463	907	5
Net fee income/(expense)		2,884	(2)	2,886	2,647	(278)	517
Other income/(loss)	11	318	(249)	567	479	85	3
Net operating income LICs	12 13	11,074	246 (1,005)	10,828 (990)	9,589 (990)	714) —	525 —
Net operating income		10,069	231	9,838	8,599	714	525
Total operating expenses		(8,666)	(696)	(7,970)	(7,383)	(213)	(374)
Operating profit/(loss)		1,403	(465)	1,868	1,216	501	151
Income from associates	14	202	—	202	180	13	9
Profit/(loss) before tax		1,605	(465)	2,070	1,396	514	160
RoRWA		1.6	% (2.0)	% 2.7	%		

For footnotes, see page 65.

RBWM comprises the Principal RBWM business and the US run-off portfolio. We believe that highlighting Principal RBWM (and its constituent business streams, Banking Operations, Insurance Manufacturing and Asset Management) allows management to identify more readily the causes of material changes from year to year in the

ongoing business and to assess the factors and trends that are expected to have a material effect on the business in future years.

Insurance manufacturing for RBWM excludes other global businesses which contribute net operating income of \$199m in 1H16 (1H15: \$189m; 2H15: \$97m) and profit before tax of

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Global businesses (continued)

\$159m (1H15: \$144m); 2H15: \$57m) to overall insurance manufacturing. In 1H16, insurance manufacturing net operating income for RBWM included \$575m within Wealth

Management (1H15: \$1,080m) and \$58m within other products (1H15: \$83m).

Principal RBWM¹⁰ performanceManagement view of adjusted revenue¹²

	Footnotes	Half-year to		
		30 Jun 2016	30 Jun 2015	31 Dec 2015
		\$m	\$m	\$m
Current accounts, savings and deposits		2,856	2,633	2,668
Wealth Management products		2,578	3,485	2,620
– investment distribution		1,516	1,909	1,522
– life insurance manufacturing		575	1,038	581
– asset management		487	538	517
Personal lending		4,668	4,704	4,731
– mortgages		1,349	1,372	1,390
– credit cards		1,767	1,850	1,811
– other personal lending		1,552	1,482	1,530
Other		321	295	497
Net operating income	12	10,423	11,116	10,516
For footnotes, see page 65.				

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Commercial Banking

CMB serves approximately two million customers in 55 countries and territories. Our customers range from small enterprises focused primarily on their domestic markets through to corporates operating globally.

		Half-year to		
		30 Jun	30 Jun	31 Dec
		2016	2015	2015
	Footnotes	\$m	\$m	\$m
Net interest income		4,809	4,892	4,967
Net fee income		1,965	2,168	2,022
Other income	11	735	474	347
Net operating income	12	7,509	7,534	7,336
LICs	13	(833)	(511)	(1,259)
Net operating income		6,676	7,023	6,077
Total operating expenses		(3,143)	(3,321)	(3,423)
Operating profit		3,533	3,702	2,654
Income from associates	14	771	821	796
Profit before tax		4,304	4,523	3,450
RoRWA		2.1 %	2.1 %	1.6 %

Management view of adjusted revenue¹²

		Half-year to		
		30 Jun	30 Jun	31 Dec
		2016	2015	2015
	Footnotes	\$m	\$m	\$m
Global Trade and Receivables Finance		1,071	1,167	1,156
Credit and Lending		2,821	2,747	2,864
Global Liquidity and Cash Management		2,332	2,215	2,302
Markets products, Insurance and Investments and Other		1,055	1,012	818
Net operating income	12	7,279	7,141	7,140

For footnotes, see page 65. For details of significant items, see pages 59 to 64.

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Global businesses (continued)

Global Banking and Markets

GB&M supports major government, corporate and institutional clients worldwide in achieving their long-term strategic goals through tailored and innovative solutions.

	Footnotes	Total GB&M \$m	Legacy \$m	GB&M client-facing and BSM \$m
Half-year to 30 Jun 2016				
Net interest income		3,434	2	3,432
Net fee income/(expense)		1,641	(3)	1,644
Net trading income/(expense)	1	4,760	(65)	4,825
Other expense	11	(922)	(34)	(888)
Net operating income/(loss)	12	8,913	(100)	9,013
LICs	13	(425)	12	(437)
Net operating income/(loss)		8,488	(88)	8,576
Total operating expenses		(4,749)	(38)	(4,711)
Operating profit/(loss)		3,739	(126)	3,865
Income from associates	14	267		—
Profit before tax		4,006		
RoRWA		1.8	% (1.0)%	2.0 %
Half-year to 30 Jun 2015				
Net interest income		3,629	114	3,515
Net fee income/(expense)		1,711	(6)	1,717
Net trading income/(expense)	1	3,743	(1)	3,744
Other income/(expense)	11	1,178	(10)	1,188
Net operating income	12	10,261	97	10,164
LICs	13	11	15	(4)
Net operating income		10,272	112	10,160

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Total operating expenses		(5,790)	(41)	(5,749)	
Operating profit		4,482	71	4,411	
Income from associates	14	272			
Profit before tax		4,754			
RoRWA		1.9	% 0.4	% 2.0	%

Half-year to 31 Dec 2015

Net interest income		3,302	13	3,289	
Net fee income/(expense)		1,664	(5)	1,669	
Net trading income	1	3,426	10	3,416	
Other expense	11	(420)	(54)	(366)	
Net operating income/(loss)	12	7,972	(36)	8,008	
LICs	13	(11)	22	(33)	
Net operating income/(loss)		7,961	(14)	7,975	
Total operating expenses		(5,044)	(62)	(4,982)	
Operating profit/(loss)		2,917	(76)	2,993	
Income from associates	14	239			
Profit before tax		3,156			
RoRWA		1.4	% (0.5)	% 1.5	%

For footnotes, see page 65.

The GB&M client-facing and Balance Sheet Management ('BSM') businesses measure excludes the effects of the legacy credit portfolio and income from associates. This allows GB&M management to identify more readily the cause of material changes from year to year in the ongoing businesses and assess the factors and trends that are expected to have a material effect on the businesses in future years.

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Management view of adjusted revenue¹²

		Half-year to		
		30 Jun	30 Jun	31 Dec
		2016	2015	2015
	Footnotes	\$m	\$m	\$m
Global Markets		3,588	4,188	2,448
– Legacy credit		(100)	96	(32)
– Credit		506	478	164
– Rates		1,116	961	612
– Foreign Exchange		1,491	1,584	1,227
– Equities		575	1,069	477
Global Banking		1,776	1,813	1,859
Global Liquidity and Cash Management		924	854	876
Securities Services		786	835	818
Global Trade and Receivables Finance		352	349	344
Balance Sheet Management		1,448	1,506	1,312
Principal Investments		(5)	125	109
Other	16	(87)	(16)	(57)
Net operating income	12	8,782	9,654	7,709
For footnotes, see page 65.				

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Global businesses (continued)

Global Private Banking

GPB serves high net worth individuals and families with complex and international needs within the Group's priority markets.

		Half-year to		
		30 Jun	30 Jun	31 Dec
		2016	2015	2015
	Footnotes	\$m	\$m	\$m
Net interest income		395	454	416
Net fee income		386	527	432
Other income	11	192	196	147
Net operating income	12	973	1,177	995
LICs	13	11	(5)	(7)
Net operating income		984	1,172	988
Total operating expenses		(1,545)	(1,001)	(831)
Operating (loss)/profit		(561)	171	157
Income from associates	14	4	9	7
Profit before tax		(557)	180	164
RoRWA		(5.9)%	1.8 %	1.6 %

Client assets¹⁷

		Half-year to		
		30 Jun	30 Jun	31 Dec
		2016	2015	2015
		\$bn	\$bn	\$bn
At beginning of period		349	365	370
Net new money		(7)	(1)	1
Of which: areas targeted for growth		5	7	7
Value change		(6)	9	(8)
Exchange and other		(19)	(3)	(14)

At end of period 317 370 349

For footnotes, see page 65. For details of significant items, see pages 59 to 64.

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Other⁸

'Other' contains the results of HSBC's holding company and financing operations, central support and functional costs with associated recoveries, unallocated investment activities, centrally held investment companies, certain property transactions, movements in fair value of own debt and the UK bank levy.

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	Footnotes \$m	\$m	\$m
Net interest expense	(392)	(397)	(313)
Net fee income/(expense)	18	(15)	(22)
Net trading expense	(146)	(123)	(69)
Changes in fair value of long-term debt issued and related derivatives	270	1,324	(461)
Changes in other financial instruments designated at fair value	1,320	(661)	722
Net income from financial instruments designated at fair value	1,590	663	261
Other income	2,959	4,559	3,060
Net operating income	4,029	4,687	2,917
Total operating expenses	(4,453)	(3,879)	(6,054)
Operating (loss)/profit	(424)	808	(3,137)
Income from associates	14	3	1
(Loss)/profit before tax	(421)	809	(3,136)

For footnotes, see page 65. For details of significant items, see pages 59 to 64.

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Global businesses (continued)

Analysis by global business

HSBC profit/(loss) before tax and balance sheet data

	Footnotes	Half-year to 30 Jun 2016						Total
		Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other ⁸	Inter- segment elimination ¹⁸	
		\$m	\$m	\$m	\$m	\$m	\$m	\$m
Profit/(loss) before tax								
Net interest income/(expense)		7,724	4,809	3,434	395	(392)	(210)	15,760
Net fee income		2,576	1,965	1,641	386	18	—	6,586
Trading income/(expense) excluding net interest income		73	286	4,228	157	(150)	—	4,594
Net interest (expense)/income on trading activities		(8)	(8)	532	—	4	210	730
Net trading income/(expense)	1	65	278	4,760	157	(146)	210	5,324
Net income/(expense) from financial instruments designated at fair value		185	74	(1,283)	(5)	1,590	—	561
Gains less losses from financial investments		383	264	307	11	—	—	965
Dividend income		10	8	16	3	27	—	64
Net insurance premium income/(expense)		4,748	601	2	8	(3)	—	5,356
Other operating income/(expense)		503	214	36	24	2,937	(3,070)	644
Total operating income/(expense)		16,194	8,213	8,913	979	4,031	(3,070)	35,260
Net insurance claims	19	(5,077)	(704)	—	(6)	(3)	—	(5,790)
	12	11,117	7,509	8,913	973	4,028	(3,070)	29,470

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Net operating income/(expense)							
Loan impairment (charges)/recoveries and other credit risk provisions	(1,120)	(833)	(425)	11	1	—	(2,366)
Net operating income/(expense)	9,997	6,676	8,488	984	4,029	(3,070)	27,104
Employee expenses	20 (2,353)	(1,117)	(1,785)	(309)	(3,790)	—	(9,354)
Other operating expenses	(5,455)	(2,026)	(2,964)	(1,236)	(663)	3,070	(9,274)
Total operating (expense)/income	(7,808)	(3,143)	(4,749)	(1,545)	(4,453)	3,070	(18,628)
Operating profit/(loss)	2,189	3,533	3,739	(561)	(424)	—	8,476
Share of profit in associates and joint ventures	193	771	267	4	3	—	1,238
Profit/(loss) before tax	2,382	4,304	4,006	(557)	(421)	—	9,714
	%	%	%	%	%		%
Share of HSBC's profit before tax	24.5	44.3	41.2	(5.7)	(4.3)		100.0
Cost efficiency ratio	70.2	41.9	53.3	158.8	110.6		63.2
Balance sheet data	9						
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Loans and advances to customers (net)	326,699	298,641	219,186	39,923	3,107		887,556
Reported in held for sale	7,304	8,472	4,279	623	33		20,711
Total assets	470,245	355,388	1,873,474	79,068	179,853	(349,879)	2,608,149
Customer accounts	588,864	347,842	274,095	77,981	2,176		1,290,958
Reported in held for sale	9,749	4,446	3,467	2,869	—		20,531

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HSBC profit/(loss) before tax and balance sheet data (continued)

		Half-year to 30 Jun 2015						
		Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other ₈	Inter- segment elimination ₁₈	Total
	Footnotes	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Profit/(loss) before tax								
Net interest income/(expense)		8,054	4,892	3,629	454	(397)	(188)	16,444
Net fee income/(expense)		3,334	2,168	1,711	527	(15)	—	7,725
Trading income/(expense) excluding net interest income		295	308	2,880	175	(138)	—	3,520
Net interest (expense)/income on trading activities		(5)	(7)	863	(1)	15	188	1,053
Net trading income/(expense)	1	290	301	3,743	174	(123)	188	4,573
Net income from financial instruments designated at fair value		1,237	128	638	—	663	—	2,666
Gains less losses from financial investments		51	27	402	24	1,370	—	1,874
Dividend income		11	10	17	4	26	—	68
Net insurance premium income		4,950	624	3	30	—	—	5,607
Other operating income/(expense)		609	100	120	2	3,163	(3,158)	836
Total operating income/(expense)		18,536	8,250	10,263	1,215	4,687	(3,158)	39,793
Net insurance claims	19	(6,094)	(716)	(2)	(38)	—	—	(6,850)
Net operating income/(expense)	12	12,442	7,534	10,261	1,177	4,687	(3,158)	32,943
Loan impairment (charges)/recoveries and other credit risk		(934)	(511)	11	(5)	—	—	(1,439)

provisions

Net operating income/(expense)	11,508	7,023	10,272	1,172	4,687	(3,158	) 31,504
Employee expenses	20	(2,571	) (1,171	) (1,994	) (350	) (3,955	) — (10,041
Other operating expenses		(5,783	) (2,150	) (3,796	) (651	) 76	3,158 (9,146
Total operating (expense)/income		(8,354	) (3,321	) (5,790	) (1,001	) (3,879	) 3,158 (19,187
Operating profit		3,154	3,702	4,482	171	808	— 12,317
Share of profit in associates and joint ventures		208	821	272	9	1	— 1,311
Profit before tax		3,362	4,523	4,754	180	809	— 13,628
		%	%	%	%	%	%
Share of HSBC's profit before tax		24.7	33.2	34.9	1.3	5.9	100.0
Cost efficiency ratio		67.1	44.1	56.4	85.0	82.8	58.2
Balance sheet data	9						
		\$m	\$m	\$m	\$m	\$m	\$m
Loans and advances to customers (net)		352,189	310,256	244,321	44,242	2,977	953,985
Reported in held for sale		6,640	10,325	4,016	43	—	21,024
Total assets		497,199	378,641	1,790,461	85,740	167,946	(348,274
Customer accounts		589,715	362,069	299,181	82,878	1,957	1,335,800
Reported in held for sale		9,549	4,694	3,438	1,751	—	19,432

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Global businesses (continued)

	Footnotes	Half-year to 31 Dec 2015						Total
		Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other ⁸	Inter- segment elimination ¹⁸	
		\$m	\$m	\$m	\$m	\$m	\$m	\$m
Profit/(loss) before tax								
Net interest income/(expense)		7,872	4,967	3,302	416	(313)	(157)	16,087
Net fee income/(expense)		2,884	2,022	1,664	432	(22)	—	6,980
Trading income/(expense) excluding net interest income		245	263	2,834	152	(66)	—	3,428
Net interest (expense)/income on trading activities		(14)	(9)	592	(1)	(3)	157	722
Net trading income/(expense)	1	231	254	3,426	151	(69)	157	4,150
Net (expense)/income from financial instruments designated at fair value		(681)	(18)	(696)	—	261	—	(1,134)
Gains less losses from financial investments		17	10	196	(1)	(28)	—	194
Dividend income		12	6	23	7	7	—	55
Net insurance premium income/(expense)		4,254	482	2	12	(2)	—	4,748
Other operating income/(expense)		363	152	57	1	3,083	(3,437)	219
Total operating income/(expense)		14,952	7,875	7,974	1,018	2,917	(3,437)	31,299
Net insurance claims	19	(3,878)	(539)	(2)	(23)	—	—	(4,442)
Net operating income/(expense)	12	11,074	7,336	7,972	995	2,917	(3,437)	26,857

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Loan impairment (charges)/recoveries and other credit risk provisions	(1,005) (1,259) (11) (7) —	—	(2,282)
Net operating income/(expense)	10,069	6,077	7,961	988	2,917	(3,437	) 24,575	
Employee expenses	20 (2,395	) (1,272	) (1,741	) (304	) (4,147	) —	(9,859)
Other operating expenses	(6,271	) (2,151	) (3,303	) (527	) (1,907	) 3,437	(10,722)
Total operating (expense)/income	(8,666	) (3,423	) (5,044	) (831	) (6,054	) 3,437	(20,581)
Operating profit/(loss)	1,403	2,654	2,917	157	(3,137	) —	3,994	
Share of profit in associates and joint ventures	202	796	239	7	1	—	1,245	
Profit/(loss) before tax	1,605	3,450	3,156	164	(3,136	) —	5,239	
	%	%	%	%	%		%	
Share of HSBC's profit before tax	30.6	65.9	60.2	3.1	(59.8	)	100.0	
Cost efficiency ratio	78.3	46.7	63.3	83.5	207.5		76.6	
Balance sheet data	9							
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Loans and advances to customers (net)	340,009	302,240	236,932	42,942	2,331		924,454	
Reported in held for sale	5,258	8,010	3,689	85	1,979		19,021	
Total assets	473,284	365,290	1,616,704	81,448	147,417	(274,487	) 2,409,656	
Customer accounts	584,872	361,701	261,728	80,404	881		1,289,586	
Reported in held for sale	7,758	3,363	2,551	3,010	—		16,682	

For footnotes, see page 65.

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Geographical regions

Geographical regions

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Summary

HSBC reviews operating activity on a number of bases, including by geographical region and by global business. In the analysis of profit and loss by geographical region that follows, operating income and operating expenses include intra-HSBC items of \$1,615m (1H15: \$1,564m; 2H15: \$1,811m).

All tables are on a reported basis unless otherwise stated.

Basis of preparation

The results of the geographical regions are presented in accordance with the accounting policies used in the preparation of HSBC's consolidated financial statements. Our operations are closely integrated, and accordingly, the presentation of the geographical data includes internal allocation of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to geographical regions. While such allocations have been done on a systematic and consistent basis, they necessarily involve a degree of subjectivity.

Where relevant, income and expense amounts presented include the results of inter-segment funding along with inter-company transactions. All such transactions are undertaken on an arm's length basis.

The expense of the UK bank levy is included in the Europe geographical region as HSBC regards the levy as a cost of being headquartered in the UK.

Profit/(loss) before tax

	Half-year to					
	30 Jun 2016		30 Jun 2015		31 Dec 2015	
	\$m	%	\$m	%	\$m	%
Europe	1,579	16.3	2,205	16.2	(1,562)	(29.8)
Asia	7,155	73.7	9,400	69.0	6,363	121.5
Middle East and North Africa	985	10.1	901	6.6	636	12.1
North America	50	0.5	690	5.1	(76)	(1.5)
Latin America	(55)	(0.6)	432	3.1	(122)	(2.3)
Profit before tax	9,714	100.0	13,628	100.0	5,239	100.0

Total assets⁹

At 30 Jun 2016 At 31 Dec 2015

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	\$m	%	\$m	%
Europe	1,251,513	47.9	1,129,365	46.9
Asia	946,998	36.3	889,747	36.9
Middle East and North Africa	58,802	2.3	59,236	2.5
North America	438,658	16.8	393,960	16.3
Latin America	93,067	3.6	86,262	3.6
Intra-HSBC items	(180,889)	(6.9)	(148,914)	(6.2)
Total assets	2,608,149	100.0	2,409,656	100.0

Risk-weighted assets²¹

	At 30 Jun 2016		At 31 Dec 2015	
	\$bn	%	\$bn	%
Total RWAs	1082.2	100.0	1,103.0	100.0
Europe	331.2	30.6	337.4	30.6
Asia	462.3	42.7	459.7	41.7
Middle East and North Africa	59.7	5.5	60.4	5.5
North America	175.1	16.2	191.6	17.4
Latin America	78.6	7.3	73.4	6.7

For footnotes, see page 65.

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Geographical regions (continued)

Europe

Our principal banking operations in Europe are HSBC Bank plc in the UK, HSBC France, HSBC Private Bank (Suisse) SA and HSBC Trinkaus & Burkhardt AG in Germany. Through these operations we provide a wide range of banking, treasury and financial services to personal, commercial and corporate customers across Europe.

In total, we operate in 24 countries and territories in Europe.

		Half-year to		
		30 Jun	30 Jun	31 Dec
		2016	2015	2015
	Footnotes	\$m	\$m	\$m
Net interest income		4,653	5,115	4,890
Net fee income		2,250	2,447	2,444
Net trading income		2,886	1,913	2,147
Other income		1,333	1,994	108
Net operating income	12	11,122	11,469	9,589
LICs	13	(398)	(288)	(402)
Net operating income		10,724	11,181	9,187
Total operating expenses		(9,144)	(8,978)	(10,755)
Operating profit/(loss)		1,580	2,203	(1,568)
Income from associates	14	(1)	2	6
Profit/(loss) before tax		1,579	2,205	(1,562)
Loans and advances to customers (net)		365,325	400,452	392,041
Customer accounts		482,992	536,251	497,876
RoRWA		0.9 %	1.2 %	(0.9)%
Cost efficiency ratio		82.2 %	78.3 %	112.2 %
Period-end staff numbers		65,387	69,867	67,509
For footnotes, see page 65.				

Asia

Our principal banking subsidiaries in Hong Kong are The Hongkong and Shanghai Banking Corporation Limited, and Hang Seng Bank Limited. The former is the largest bank incorporated in Hong Kong and is our flagship bank in Asia. We offer a wide range of banking and financial services in mainland China through our local subsidiaries, HSBC Bank (China) Company Limited and Hang Seng Bank (China) Limited. We also participate indirectly in mainland China through our associate, Bank of Communications Co., Limited ('BoCom').

Outside Hong Kong and mainland China, we conduct business in 18 countries and territories in Asia, with particularly strong coverage in Australia, India, Indonesia, Malaysia, Singapore and Taiwan.

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015

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	Footnotes	\$m	\$m	\$m
Net interest income		6,141	6,060	6,124
Net fee income		2,571	3,291	2,741
Net trading income		1,703	1,779	1,311
Other income		1,337	2,935	1,062
Net operating income	12	11,752	14,065	11,238
LICs	13	(344)	(246)	(447)
Net operating income		11,408	13,819	10,791
Total operating expenses		(5,245)	(5,457)	(5,432)
Operating profit		6,163	8,362	5,359
Income from associates	14	992	1,038	1,004
Profit before tax		7,155	9,400	6,363
Loans and advances to customers (net)		352,404	371,639	356,375
Customer accounts		610,200	599,940	598,620
RoRWA		3.1 %	3.8 %	2.7 %
Cost efficiency ratio		44.6 %	38.8 %	48.3 %
Period-end staff numbers		119,699	120,588	120,144
For footnotes, see page 65.				

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Middle East and North Africa

The network of branches of HSBC Bank Middle East Limited, together with HSBC's subsidiaries and associates, gives us wide coverage in the region. Our associate in Saudi Arabia, The Saudi British Bank (40% owned), is the Kingdom's sixth largest bank by total assets.

		Half-year to		
		30 Jun	30 Jun	31 Dec
		2016	2015	2015
	Footnotes	\$m	\$m	\$m
Net interest income		786	758	773
Net fee income		311	325	308
Net trading income		185	167	158
Other income		52	39	37
Net operating income	12	1,334	1,289	1,276
LICs	13	(40)	(31)	(268)
Net operating income		1,294	1,258	1,008
Total operating expenses		(559)	(624)	(610)
Operating profit		735	634	398
Income from associates	14	250	267	238
Profit before tax		985	901	636
Loans and advances to customers (net)		29,774	31,207	29,894
Customer accounts		35,094	38,186	36,468
RoRWA		3.3 %	2.9 %	2.0 %
Cost efficiency ratio		41.9 %	48.4 %	47.8 %
Period-end staff numbers		7,693	8,208	8,066

For footnotes, see page 65.

North America

Our North American businesses are principally located in the US and Canada. Operations in the US are primarily conducted through HSBC Bank USA, N.A. and HSBC Finance Corporation, a national consumer finance company. HSBC Markets (USA) Inc. is the intermediate holding company of, inter alia, HSBC Securities (USA) Inc. Canadian operations are conducted through HSBC Bank Canada.

		Half-year to		
		30 Jun	30 Jun	31 Dec
		2016	2015	2015
	Footnotes	\$m	\$m	\$m
Net interest income		2,236	2,278	2,254
Net fee income		970	1,057	961

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Net trading income		221	296	249
Other income		525	495	67
Net operating income	12	3,952	4,126	3,531
LICs	13	(617)	(153)	(391)
Net operating income		3,335	3,973	3,140
Total operating expenses		(3,283)	(3,287)	(3,214)
Operating profit/(loss)		52	686	(74)
Income from associates	14	(2)	4	(2)
Profit/(loss) before tax		50	690	(76)
Loans and advances to customers (net)		122,509	132,340	128,851
Customer accounts		142,152	137,296	135,152
RoRWA		0.1 %	0.6 %	(0.1)%
Cost efficiency ratio		83.1 %	79.7 %	91.0 %
Period-end staff numbers		18,838	20,338	19,656
For footnotes, see page 65.				

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Geographical regions (continued)

Latin America

In 1H16, our operations in Latin America principally comprised HSBC Bank Brasil S.A.-Banco Múltiplo and HSBC México, S.A. In addition to banking services, we operated insurance businesses in Brazil, Mexico and Argentina. During 2015 our operations in Brazil were classified as held for sale. On 1 July, we completed the sale of our operations in Brazil.

	Footnotes	Half-year to 30 Jun 2016			30 Jun 2015			31 Dec 2015		
		Total Latin America \$m	Brazil \$m	Other Latin America \$m	Total Latin America \$m	Brazil \$m	Other Latin America \$m	Total Latin America \$m	Brazil \$m	Other Latin America \$m
Net interest income		1,976	974	1,002	2,249	1,214	1,035	2,069	1,011	1,058
Net fee income		484	233	251	605	307	298	526	253	273
Net trading income		297	144	153	402	242	160	262	128	134
Other income		168	112	56	302	279	23	177	150	27
Net operating income	12	2,925	1,463	1,462	3,558	2,042	1,516	3,034	1,542	1,492
LICs	13	(967)	(748)	(219)	(721)	(498)	(223)	(774)	(467)	(307)
Net operating income		1,958	715	1,243	2,837	1,544	1,293	2,260	1,075	1,185
Total operating expenses		(2,012)	(1,070)	(942)	(2,405)	(1,353)	(1,052)	(2,381)	(1,260)	(1,121)
Operating (loss)/profit		(54)	(355)	301	432	191	241	(121)	(185)	64
Income from associates	14	(1)	(1)	—	—	—	—	(1)	(1)	—
(Loss)/profit before tax		(55)	(356)	301	432	191	241	(122)	(186)	64

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Loans and advances to customers (net)	17,544	—	17,544	18,347	—	18,347	17,293	—	17,293
– reported in held for sale	19,203	19,203	—	20,827	20,827	—	17,001	17,001	—
Customer accounts	20,520	—	20,520	24,127	—	24,127	21,470	—	21,470
– reported in held for sale	19,357	19,357	—	19,432	19,432	—	15,094	15,094	—
RoRWA	(0.1)%	(1.6)%	1.9 %	1.0 %	0.8 %	1.3 %	(0.3)%	(0.9)%	0.4 %
Cost efficiency ratio	68.8 %	73.1 %	64.4 %	67.6 %	66.3 %	69.4 %	78.5 %	81.7 %	75.1 %
Period-end staff numbers	39,719	18,835	20,884	40,787	19,641	21,146	39,828	19,145	20,683

For footnotes, see page 65.

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Analysis by country

Profit/(loss) before tax by priority growth markets within global businesses

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Total
Footnotes	\$m	\$m	\$m	\$m	\$m	\$m
Europe	853	1,326	594	(744)	(450)	1,579
– UK	872	1,136	196	87	(314)	1,977
– France	8	138	134	4	(72)	212
– Germany	10	36	94	5	(16)	129
– Switzerland	—	—	—	(53)	(23)	(76)
– other	(37)	16	170	(787)	(25)	(663)
Asia	2,081	2,356	2,512	123	83	7,155
– Hong Kong	1,811	1,198	1,092	91	(22)	4,170
– Australia	50	25	59	—	(2)	132
– India	11	81	236	6	68	402
– Indonesia	(3)	51	67	—	(6)	109
– Mainland China	112	754	459	(2)	49	1,372
– Malaysia	29	44	107	—	11	191
– Singapore	26	63	145	28	(2)	260
– Taiwan	14	10	62	—	(2)	84
– other	31	130	285	—	(11)	435
Middle East and North Africa	161	322	506	5	(9)	985
– Egypt	34	62	139	—	—	235
– UAE	72	114	184	—	(10)	360
– Saudi Arabia	45	79	119	5	3	251
– other	10	67	64	—	(2)	139
North America	(515)	310	159	53	43	50
– US	(571)	204	(18)	31	64	(290)
– Canada	27	93	148	—	(23)	245
– other	29	13	29	22	2	95
Latin America	(198)	(10)	235	6	(88)	(55)
– Mexico	47	52	51	1	(21)	130
– other	(245)	(62)	184	5	(67)	(185)
included in other: Brazil	5	(140)	111	4	(51)	(357)
Half-year to 30 Jun 2016	2,382	4,304	4,006	(557)	(421)	9,714
Europe	863	1,287	905	(23)	(827)	2,205
– UK	633	1,115	398	100	(821)	1,425
– France	284	83	241	10	5	623
– Germany	12	30	74	12	(14)	114
– Switzerland	—	3	1	(162)	—	(158)
– other	(66)	56	191	17	3	201

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Asia	2,531	2,404	2,683	156	1,626	9,400
– Hong Kong	2,172	1,239	1,238	120	1,464	6,233
– Australia	24	61	128	—	(7)	206
– India	(3	) 46	195	7	90	335
– Indonesia	—	(29	) 38	—	17	26
– Mainland China	184	817	544	(1)	38	1,582
– Malaysia	67	60	105	—	8	240
– Singapore	45	63	139	31	(17)	261
– Taiwan	11	12	66	—	(5)	84
– other	31	135	230	(1)	38	433

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Geographical regions (continued)

	Retail Banking and Wealth Management \$m	Commercial Banking \$m	Global Banking and Markets \$m	Global Private Banking \$m	Other \$m	Total \$m
Middle East and North Africa	Footnotes 172	273	470	8	(22)	901
– Egypt	26	50	128	—	(1)	203
– UAE	83	76	157	(1	) (21)	294
– Saudi Arabia	54	82	118	10	—	264
– other	9	65	67	(1	) —	140
North America	(172	) 423	356	37	46	690
– US	(219	) 204	190	37	70	282
– Canada	33	206	142	—	(17)	364
– other	14	13	24	—	(7)	44
Latin America	(32	) 136	340	2	(14)	432
– Mexico	33	28	56	—	1	118
– other	(65	) 108	284	2	(15)	314
included in other: Brazil	5 (74	) 32	208	2	23	191
Half-year to 30 Jun 2015	3,362	4,523	4,754	180	809	13,628
Europe	331	1,032	143	37	(3,105)	(1,562)
– UK	331	925	(14	) 69	(3,036)	(1,725)
– France	104	69	(129	) 4	(32)	16
– Germany	11	36	83	8	(13)	125
– Switzerland	—	5	(1	) (58	) (4)	(58)
– other	(115	) (3	) 204	14	(20)	80
Asia	1,855	2,104	2,251	96	57	6,363
– Hong Kong	1,627	1,145	881	57	(137)	3,573
– Australia	37	18	110	—	2	167
– India	(22	) 51	184	7	51	271
– Indonesia	(6	) (83	) 42	—	14	(33)
– Mainland China	113	752	518	(2	) 97	1,478
– Malaysia	52	35	110	—	5	202
– Singapore	35	59	120	34	(2)	246
– Taiwan	—	12	67	—	(8)	71
– other	19	115	219	—	35	388
Middle East and North Africa	100	135	403	8	(10)	636
– Egypt	24	51	128	—	4	207
– UAE	8	(57) 135	1	(14)	73
– Saudi Arabia	58	87	84	6	1	236

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– other	10	54	56	1	(1) 120
North America	(473) 150	237	22	(12) (76)
– US	(517) 98	165	28	(15) (241)
– Canada	25	53	47	—	(4) 121
– other	19	(1) 25	(6	) 7	44
Latin America	(208	) 29	122	1	(66) (122)
– Mexico	40	(33) (71	) (3	) (19) (86)	
– other	(248	) 62	193	4	(47) (36)
included in other: Brazil 5	(270) (21) 128	4	(27) (186)

Half-year to 31 Dec
2015

For footnote, see page 65.

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Other information

Other information

Funds under management

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	\$bn	\$bn	\$bn
Funds under management by business			
Global Asset Management	426	440	419
Global Private Banking	232	280	261
Affiliates	3	6	4
Other	209	237	212
	870	963	896
At beginning of period	896	954	963
Net new money	(8)	3	(6)
Value change	6	32	(30)
Exchange and other	(24)	(26)	(31)
At end of period	870	963	896

HSBC HOLDINGS PLC

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Other information (continued)

Reconciliation of reported results to adjusted performance

Reconciliation of reported results to adjusted performance – geographical regions

Half-year to 30 Jun 2016

	Footnotes	Europe \$m	Asia \$m	MENA \$m	North America \$m	Latin America \$m	Total \$m	UK \$m	Hong Kong \$m
Revenue	12								
Reported	15	11,122	11,752	1,334	3,952	2,925	29,470	8,450	7,061
Significant items		(1,522)	(66)	(5)	(74)	65	(1,602)	(1,391)	(22)
– debit valuation adjustment (‘DVA’) on derivative contracts		(110)	(63)	—	(13)	35	(151)	(100)	(25)
– disposal costs of Brazilian operations		—	—	—	—	32	32	—	—
– fair value movements on non-qualifying hedges	22	277	13	—	109	(2)	397	239	16
– gain on sale of several tranches of real estate secured accounts in the US		—	—	—	(68)	—	(68)	—	—
– gain on disposal of our membership interest in Visa Europe		(584)	—	—	—	—	(584)	(441)	—
– own credit spread	23	(1,103)	(16)	(5)	(102)	—	(1,226)	(1,087)	(13)
– releases arising from the ongoing review of compliance with the UK Consumer Credit Act		(2)	—	—	—	—	(2)	(2)	—
Adjusted	15	9,600	11,686	1,329	3,878	2,990	27,868	7,059	7,039
LICs	13								
Reported		(398)	(344)	(40)	(617)	(967)	(2,366)	(261)	(143)
Adjusted		(398)	(344)	(40)	(617)	(967)	(2,366)	(261)	(143)
Operating expenses									
Reported	15	(9,144)	(5,245)	(559)	(3,283)	(2,012)	(18,628)	(6,210)	(2,760)
Significant items		1,841	114	3	708	17	2,683	873	62
– costs-to-achieve		774	114	3	121	6	1,018	674	62
– costs to establish UK ring-fenced bank		94	—	—	—	—	94	94	—
– disposal costs of Brazilian operations		—	—	—	—	11	11	—	—
– impairment of Global Private Banking – Europe goodwill		800	—	—	—	—	800	—	—
– regulatory provisions in GBP		4	—	—	—	—	4	—	—
– settlements and provisions in connection with legal matters		136	—	—	587	—	723	72	—

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– UK customer redress programmes	33	—	—	—	—	33	33	—
Adjusted	15	(7,303)	(5,131)	(556)	(2,575)	(1,995)	(15,945)	(5,337) (2,698)
Share of profit in associates and joint ventures								
Reported		(1)	992	250	(2)	(1)	1,238	(2) 12
Adjusted		(1)	992	250	(2)	(1)	1,238	(2) 12
Profit before tax								
Reported		1,579	7,155	985	50	(55)	9,714	1,977 4,170
Significant items		319	48	(2)	634	82	1,081	(518) 40
– revenue		(1,522)	(66)	(5)	(74)	65	(1,602)	(1,391) (22)
– operating expenses		1,841	114	3	708	17	2,683	873 62
Adjusted		1,898	7,203	983	684	27	10,795	1,459 4,210

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		Half-year to 30 Jun 2015							
		Europe	Asia	MENA	North America	Latin America	Total	UK	Hong Kong
Footnotes		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue	12								
Reported	15	11,469	14,065	1,289	4,126	3,558	32,943	8,246	9,130
Currency translation	15	(523)	(252)	(33)	(61)	(758)	(1,594)	(449)	(16)
Significant items		(580)	(1,419)	(3)	(157)	(12)	(2,171)	(539)	(1,380)
– DVA on derivative contracts		(79)	(50)	(1)	(22)	(13)	(165)	(67)	(14)
– fair value movements on non-qualifying hedges	22	23	—	—	21	1	45	44	5
– gain on sale of several tranches of real estate secured accounts in the US		—	—	—	(17)	—	(17)	—	—
– gain on the partial sale of shareholding in Industrial Bank		—	(1,372)	—	—	—	(1,372)	—	(1,372)
– own credit spread	23	(512)	3	(2)	(139)	—	(650)	(504)	1
– releases arising from the ongoing review of compliance with the UK Consumer Credit Act		(12)	—	—	—	—	(12)	(12)	—
Adjusted	15	10,366	12,394	1,253	3,908	2,788	29,178	7,258	7,734
LICs	13								
Reported		(288)	(246)	(31)	(153)	(721)	(1,439)	(72)	(58)
Currency translation		13	8	—	3	136	160	6	1
Adjusted		(275)	(238)	(31)	(150)	(585)	(1,279)	(66)	(57)
Operating expenses									
Reported	15	(8,978)	(5,457)	(624)	(3,287)	(2,405)	(19,187)	(6,753)	(2,855)
Currency translation	15	387	144	9	32	498	1,037	327	5
Significant items		1,132	8	1	398	6	1,545	967	6
– regulatory provisions in GBP		147	—	—	—	—	147	—	—
– restructuring and other related costs		68	8	1	34	6	117	50	6
– settlement and provisions in connection with legal matters		780	—	—	364	—	1,144	780	—
– UK customer redress programmes		137	—	—	—	—	137	137	—
Adjusted	15	(7,459)	(5,305)	(614)	(2,857)	(1,901)	(16,605)	(5,459)	(2,844)
Share of profit in associates and joint ventures									
Reported		2	1,038	267	4	—	1,311	4	16
Currency translation		2	(55)	—	(1)	(1)	(55)	(1)	—
Adjusted		4	983	267	3	(1)	1,256	3	16

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Profit before tax									
Reported	2,205	9,400	901	690	432	13,628	1,425	6,233	
Currency translation	(121)	(155)	(24)	(27)	(125)	(452)	(117)	(10)	
Significant items	552	(1,411)	(2)	241	(6)	(626)	428	(1,374)	
– revenue	(580)	(1,419)	(3)	(157)	(12)	(2,171)	(539)	(1,380)	
– operating expenses	1,132	8	1	398	6	1,545	967	6	
Adjusted	2,636	7,834	875	904	301	12,550	1,736	4,849	

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Other information (continued)

Reconciliation of reported results to adjusted performance – geographical regions (continued)
Half-year to 31 Dec 2015

	Footnotes	Europe \$m	Asia \$m	MENA \$m	North America \$m	Latin America \$m	Total \$m	UK \$m	Hong Kong \$m
Revenue	12								
Reported	15	9,589	11,238	1,276	3,531	3,034	26,857	7,247	6,486
Currency translation	15	(439)	(50)	(21)	(7)	(267)	(763)	(446)	(14)
Significant items		(76)	(12)	(7)	255	(24)	136	(56)	(3)
– DVA on derivative contracts		(16)	(8)	—	1	(42)	(65)	(11)	1
– disposal costs of Brazilian operations		—	—	—	—	18	18	—	—
– fair value movements on non-qualifying hedges	22	177	2	—	103	—	282	160	1
– loss on sale of several tranches of real estate secured accounts in the US		—	—	—	231	—	231	—	—
– own credit spread	23	(259)	(6)	(7)	(80)	—	(352)	(227)	(5)
– provisions arising from the ongoing review of compliance with the UK Consumer Credit Act		22	—	—	—	—	22	22	—
Adjusted	15	9,074	11,176	1,248	3,779	2,743	26,230	6,745	6,469
LICs	13								
Reported		(402)	(447)	(268)	(391)	(774)	(2,282)	(176)	(97)
Currency translation		7	(5)	1	(3)	19	19	9	—
Adjusted		(395)	(452)	(267)	(394)	(755)	(2,263)	(167)	(97)
Operating expenses									
Reported	15	(10,755)	(5,432)	(610)	(3,214)	(2,381)	(20,581)	(8,802)	(2,831)
Currency translation	15	337	26	6	2	169	519	357	6
Significant items		1,273	122	14	453	179	2,041	1,184	43
– costs-to-achieve		600	122	14	103	69	908	536	43
– costs to establish UK ring-fenced bank		89	—	—	—	—	89	89	—
– disposal costs of Brazilian operations		—	—	—	—	110	110	—	—
– regulatory provisions in GBP		25	—	—	—	—	25	—	—
– settlements and provisions in connection with legal matters		155	—	—	350	—	505	155	—
– UK customer redress programmes		404	—	—	—	—	404	404	—
Adjusted	15	(9,145)	(5,284)	(590)	(2,759)	(2,033)	(18,021)	(7,261)	(2,782)

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Share of profit in associates
and joint ventures

Reported	6	1,004	238	(2) (1) 1,245	6	15
Currency translation	—	(30	) (1	) —	1	(30	) 1	—
Adjusted	6	974	237	(2	) —	1,215	7	15
Profit before tax								
Reported	(1,562	) 6,363	636	(76	) (122	) 5,239	(1,725)	3,573
Currency translation	(95	) (59	) (15	) (8	) (78	) (255	) (79	) (8
Significant items	1,197	110	7	708	155	2,177	1,128	40
– revenue	(76	) (12	) (7	) 255	(24	) 136	(56	) (3
– operating expenses	1,273	122	14	453	179	2,041	1,184	43
Adjusted	(460) 6,414	628	624	(45) 7,161	(676) 3,605
For footnotes, see page 65.								

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Reconciliation of reported results to adjusted performance – global businesses

		Half-year to 30 Jun 2016					
		RBWM	CMB	GB&M	GPB	Other	Total
		Footnotes \$m	\$m	\$m	\$m	\$m	\$m
Revenue	12						
Reported	15	11,117	7,509	8,913	973	4,028	29,470
Significant items		(280)	(230)	(131)	(2)	(959)	(1,602)
– debit value adjustment ('DVA') on derivative contracts		—	—	(151)	—	—	(151)
– disposal costs of Brazilian operations		—	—	—	—	32	32
– fair value movements on non-qualifying hedges	22	142	—	20	—	235	397
– gain on sale of several tranches of real estate secured accounts in the US		(68)	—	—	—	—	(68)
– gain on disposal of our membership interest in Visa Europe		(354)	(230)	—	—	—	(584)
– own credit spread	23	—	—	—	—	(1,226)	(1,226)
– releases arising from the ongoing review of compliance with the UK Consumer Credit Act		—	—	—	(2)	—	(2)
Adjusted	15	10,837	7,279	8,782	971	3,069	27,868
LICs	13						
Reported		(1,120)	(833)	(425)	11	1	(2,366)
Adjusted		(1,120)	(833)	(425)	11	1	(2,366)
Operating expenses							
Reported	15	(7,808)	(3,143)	(4,749)	(1,545)	(4,453)	(18,628)
Significant items		737	54	243	805	844	2,683
– costs-to-achieve		142	37	91	5	743	1,018
– costs to establish UK ring-fenced bank		—	—	—	—	94	94
– disposal costs of Brazilian operations		8	2	(2)	—	3	11
– impairment of Global Private Banking – Europe goodwill		—	—	—	800	—	800
– regulatory provisions in GPB		—	—	—	—	4	4
– settlements and provisions in connection with legal matters		587	—	136	—	—	723
– UK customer redress programmes		—	15	18	—	—	33
Adjusted	15	(7,071)	(3,089)	(4,506)	(740)	(3,609)	(15,945)
Share of profit in associates and joint ventures							
Reported		193	771	267	4	3	1,238
Adjusted		193	771	267	4	3	1,238
Profit before tax							
Reported		2,382	4,304	4,006	(557)	(421)	9,714
Significant items		457	(176)	112	803	(115)	1,081

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– revenue	(280)	(230)	(131)	(2)	(959)	(1,602)
– operating expenses	737	54	243	805	844	2,683
Adjusted	2,839	4,128	4,118	246	(536)	10,795

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Other information (continued)

Reconciliation of reported results to adjusted performance – global businesses (continued)

		Half-year to 30 Jun 2015					
	Footnotes	RBWM \$m	CMB \$m	GB&M \$m	GPB \$m	Other \$m	Total \$m
Revenue	12						
Reported	15	12,442	7,534	10,261	1,177	4,687	32,943
Currency translation	15	(726)	(393)	(464)	(28)	(61)	(1,594)
Significant items		(23)	—	(143)	(24)	(1,981)	(2,171)
– DVA on derivative contracts		—	—	(165)	—	—	(165)
– fair value movement on non-qualifying hedges	22	(18)	—	22	—	41	45
– gain on sale of several tranches of real estate secured accounts in the US		(17)	—	—	—	—	(17)
– gain on the partial sale of shareholding in Industrial Bank		—	—	—	—	(1,372)	(1,372)
– own credit spread	23	—	—	—	—	(650)	(650)
– provisions/(releases) arising from the ongoing review of compliance with the UK Consumer Credit Act		12	—	—	(24)	—	(12)
Adjusted	15	11,693	7,141	9,654	1,125	2,645	29,178
LICs	13						
Reported		(934)	(511)	11	(5)	—	(1,439)
Currency translation		118	42	—	—	—	160
Adjusted		(816)	(469)	11	(5)	—	(1,279)
Operating expenses							
Reported	15	(8,354)	(3,321)	(5,790)	(1,001)	(3,879)	(19,187)
Currency translation	15	556	187	250	27	95	1,037
Significant items		472	52	816	165	40	1,545
– regulatory provisions in GBP		—	—	—	147	—	147
– restructuring and other related costs		32	5	22	18	40	117
– settlements and provisions in connection with legal matters		350	—	794	—	—	1,144
– UK customer redress programmes		90	47	—	—	—	137
Adjusted	15	(7,326)	(3,082)	(4,724)	(809)	(3,744)	(16,605)
Share of profit in associates and joint ventures							
Reported		208	821	272	9	1	1,311
Currency translation		(6)	(40)	(9)	—	—	(55)
Adjusted		202	781	263	9	1	1,256
Profit before tax							
Reported		3,362	4,523	4,754	180	809	13,628
Currency translation		(58)	(204)	(223)	(1)	34	(452)

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Significant items	449	52	673	141	(1,941)	(626)
– revenue	(23)	—	(143)	(24)	(1,981)	(2,171)
– operating expenses	472	52	816	165	40	1,545
Adjusted	3,753	4,371	5,204	320	(1,098)	12,550

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		Half-year to 31 Dec 2015					Total
		RBWM	CMB	GB&M	GPB	Other	
Footnotes		\$m	\$m	\$m	\$m	\$m	\$m
Revenue	12						
Reported	15	11,074	7,336	7,972	995	2,917	26,857
Currency translation	15	(328)	(213)	(207)	1	(18)	(763)
Significant items		349	17	(56)	(7)	(167)	136
– disposal costs of Brazilian operations		—	—	—	—	18	18
– DVA on derivative contracts		—	—	(65)	—	—	(65)
– fair value movements on non-qualifying hedges	22	108	(1)	9	(1)	167	282
– loss on sale of several tranches of real estate secured accounts in the US		231	—	—	—	—	231
– own credit spread	23	—	—	—	—	(352)	(352)
– provisions/(releases) arising from the ongoing review of compliance with the UK Consumer Credit Act		10	18	—	(6)	—	22
Adjusted	15	11,095	7,140	7,709	989	2,732	26,230
LICs	13						
Reported		(1,005)	(1,259)	(11)	(7)	—	(2,282)
Currency translation		16	7	(4)	—	—	19
Adjusted		(989)	(1,252)	(15)	(7)	—	(2,263)
Operating expenses							
Reported	15	(8,666)	(3,423)	(5,044)	(831)	(6,054)	(20,581)
Currency translation	15	260	92	149	(10)	30	519
Significant items		1,065	150	219	41	566	2,041
– costs-to-achieve		198	163	69	16	462	908
– costs to establish UK ring-fenced bank		—	—	—	—	89	89
– disposal costs of Brazilian operations		66	16	14	1	13	110
– regulatory provisions in GPB		—	—	—	24	1	25
– settlements and provisions in connection with legal matters		350	—	155	—	—	505
– UK customer redress programmes		451	(29)	(19)	—	1	404
Adjusted	15	(7,341)	(3,181)	(4,676)	(800)	(5,458)	(18,021)
Share of profit in associates and joint ventures							
Reported		202	796	239	7	1	1,245
Currency translation		(5)	(21)	(4)	—	—	(30)
Adjusted		197	775	235	7	1	1,215
Profit before tax							
Reported		1,605	3,450	3,156	164	(3,136)	5,239
Currency translation		(57)	(135)	(66)	(9)	12	(255)
Significant items		1,414	167	163	34	399	2,177
– revenue		349	17	(56)	(7)	(167)	136
– operating expenses		1,065	150	219	41	566	2,041

Adjusted	2,962	3,482	3,253	189	(2,725)	7,161
For footnotes, see page 65.						

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Other information (continued)

Footnotes to pages 4 to 64

- 1 Net interest income includes the cost of internally funding trading assets, while the related revenues are reported in net trading income. In our global business results, the total cost of funding trading assets is included within GB&M's net trading income as an interest expense. In the statutory presentation, internal interest income and expense are eliminated.
- 2 Gross interest yield is the average annualised interest rate earned on average interest-earning assets ('AIEA').
- 3 Net interest spread is the difference between the average annualised interest rate earned on AIEA, net of amortised premiums and loan fees, and the average annualised interest rate payable on average interest-bearing funds.
- 4 Net interest margin is net interest income expressed as an annualised percentage of AIEA.
- 5 Our operations in Brazil are classified as held for sale, with balance sheet accounts classified to 'assets held for sale' and 'liabilities of disposal groups held for sale'. There is no separate income statement classification.
- 6 Adjusted RoRWA is calculated using adjusted pre-tax return and adjusted average RWAs. RoRWAs are calculated using annualised PBT and an average of RWAs at quarter-year ends. A reconciliation between reported and adjusted performance is provided on page 59.
- 7 'Currency translation adjustment' is the effect of translating the assets and liabilities of subsidiaries and associates for the previous period-end at the rates of exchange applicable at the current period-end.
- 8 The main items reported under 'Other' are the results of HSBC's holding company and financing operations, which include: net interest earned on free capital held centrally; operating costs incurred by the head office operations in providing stewardship and central management services to HSBC; costs incurred by the Group Service Centres and Shared Service Organisations, and their associated recoveries; the UK bank levy; unallocated investment activities; centrally held investment companies; gains arising from the dilution of interests in associates and joint ventures; and gains from certain property transactions. 'Other' also includes part of the movement in the fair value of long-term debt designated at fair value (the remainder of the Group's movement on own debt is included in GB&M).
- 9 Assets by geographical region and global businesses include intra-HSBC items. These items are eliminated under the headings 'Intra-HSBC items' or 'Inter-segment elimination', as appropriate.
- 10 The Principal RBWM business measure excludes the effects of the US run-off portfolio. We believe that looking at the Principal RBWM business allows management to more clearly discuss the cause of material changes from period to period in the ongoing business and to assess the factors and trends in the business that are expected to have a material effect in future years.
- 11 Other income/expense in this context comprises where applicable net trading income, net income/(expense) from other financial instruments designated at fair value, gains less losses from financial investments, dividend income, net insurance premium income and other operating income less net insurance claims and benefits paid and movement in liabilities to policyholders.
- 12 Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.
- 13 Loan impairment charges and other credit risk provisions.
- 14 Share of profit in associates and joint ventures.
- 15 Amounts are non-additive across geographical regions and global businesses due to inter-company transactions within the Group.
- 16 'Other' in GB&M includes net interest earned on free capital held in the global business not assigned to products and gains resulting from business disposals. Within the management view of total operating income, notional tax credits are allocated to the businesses to reflect the economic benefit generated by certain activities which is not reflected within operating income, for example notional credits on income earned from tax-exempt investments where the economic benefit of the activity is reflected in tax expense. In order to reflect the total operating income on an IFRSs basis, the offset to these tax credits is included within 'Other'.
- 17 'Client assets' are translated at the rates of exchange applicable for their respective period-ends, with the effects of currency translation reported separately. The main components of client assets are funds under management, which are not reported on the Group's balance sheet, and customer deposits, which are reported on the Group's balance

sheet.

Inter-segment elimination comprises the costs of shared services and Group Service Centres included within 'Other' which are recovered from global businesses, and the intra-segment funding costs of trading activities undertaken within GB&M. HSBC's Balance Sheet Management business, reported within GB&M, provides funding to the trading businesses. To report GB&M's 'Net trading income' on a fully funded basis, 'Net interest income/(expense)' and 'Net interest income/(expense) on trading activities' are grossed up to reflect internal funding transactions prior to their elimination in the inter-segment column.

19 Net insurance claims and benefits paid and movement in liabilities to policyholders.

20 'Employee expenses' comprises costs directly incurred by each global business. The reallocation and recharging of employee and other expenses directly incurred in the 'Other' category are shown in 'Other operating expenses'.

21 RWAs are non-additive across geographical regions due to market risk diversification effects within the Group.

22 Excludes items where there are substantial offsets in the income statement for the same period.

'Own credit spread' includes the fair value movements on our long-term debt attributable to credit spread where the net result of such movements will be zero upon maturity of the debt. This does not include fair value changes due to own credit risk in respect of trading liabilities or derivative liabilities.

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Risk

Risk

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There have been no material changes to the policies and practices regarding risk management and governance described in the Annual Report and Accounts 2015.

A summary of our risk management policies and practices is provided in the Appendix to Risk on page 193 of the Annual Report and Accounts 2015.

Areas of special interest

During 1H16, we considered a number of particular areas because of the significant effect they may have on the Group. While some of these areas may have already been identified in our top and emerging risks (see page 22), further details of the actions taken in 1H16 are provided below.

The Monitor

Under the agreements entered into with the Department of Justice and the Financial Conduct Authority in 2012, including the five-year US deferred prosecution agreement, the Monitor was appointed to produce annual assessments of the effectiveness of the Group's anti-money laundering and sanctions compliance programme. The work of the Monitor is described on page 116 of the Annual Report and Accounts 2015.

We are working to implement the agreed recommendations flowing from the Monitor's reviews. The Monitor's third annual follow-up review is under way.

The 'US deferred prosecution agreement and related agreements and consent orders' is classified as a top and emerging risk, and is discussed on page 23.

Regulatory stress tests

The Group is participating in the Bank of England's 2016 concurrent stress test programme, which involves all major UK banks. The Bank of England will publish the results alongside the Financial Stability Report in the fourth quarter of 2016.

We also participated on a Group-wide basis in the European Banking Authority ('EBA') stress testing exercise. The results were published on 29 July 2016. Under the adverse scenario and methodology prescribed for this exercise, the Group maintained a ratio well above minimum regulatory requirements.

HSBC North America Holdings Inc. ('HNAH') participated in the 2016 Comprehensive Capital Analysis and Review ('CCAR') and Dodd-Frank Act Stress Testing ('DFAST') programmes of the Federal Reserve Board ('FRB'); HSBC Bank USA, N.A. participated in the 2016 DFAST programme of the

Office of the Comptroller of the Currency. Submissions were made on 5 April 2016 and the results of the FRB's DFAST process was disclosed on 23 June 2016. The results showed that HNAH had post-stress capital ratios which exceeded the regulatory minimums under both a supervisory adverse and severely adverse scenario. On 29 June 2016, the results of the CCAR process were announced and HNAH received a non-objection from the FRB to its 2016 capital plan.

Other entities in the Group, including The Hongkong and Shanghai Banking Corporation Limited, continue to participate in regional regulatory stress test activities.

A summary of our approach to stress testing and scenario analysis is provided on page 103 of the Annual Report and Accounts 2015.

The UK's referendum on EU membership

Following the UK electorate's vote to leave the European Union ('EU') in a national referendum, there has been a period of volatility against a backdrop of uncertainty, which is likely to continue for some time. We were aware of the potential for market disruption in the aftermath of a vote to leave the EU and took steps to plan for this outcome.

During 2015 and the first half of 2016, we undertook a number of different analyses including stress tests to consider the potential impact of a vote to leave the EU on capital positions, key portfolios, liquidity and our customers.

As the referendum approached, our priority was to ensure that we had adequate liquidity in each operating currency across all businesses. We also focused on operational and IT infrastructure resilience in anticipation of higher volumes and potential collateral calls immediately following the referendum. In addition, our global functions were engaged throughout and provided guidance on several issues including the standards of conduct to be maintained during a period of heightened volatility.

We are actively monitoring our portfolio to identify areas of stress, supported by stress testing analyses. Over the coming weeks and months, we intend to continue to work with regulators, governments and our customers in an effort to manage risks as they arise, particularly across those sectors most affected by the outcome. We will also continue to focus on serving and supporting our customers, and delivering on our strategy.

Negotiation of the UK's exit agreement, its future relationship with the EU and its trading relationship with the rest of the world will likely take a number of years to resolve. During this time, uncertainty as to the precise terms of these arrangements and the future legal and regulatory landscape may lead to uncertain economic conditions and market volatility. This may lead to reduced economic growth which could affect both HSBC and our clients.

Among other issues, changes to the UK's future relationship are likely to influence the business model for our London-based European cross-border banking operations, which currently rely on unrestricted access to the European financial services market.

Until the terms and timing of the UK's exit from the EU are confirmed, including the terms on which UK financial institutions will conduct cross-border business post-exit, it is not possible to fully determine the impact on HSBC.

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Risk (continued)

Oil and gas prices

Oil and commodity prices have remained low since the middle of 2014 as a result of existing global supply and demand imbalances, with significant price declines in late 2015 and early 2016. Prices rose during 1H16 reducing the level of stress in the portfolio. However the sector remains challenged with low levels of capital expenditure impacting the oil and gas services sector in particular.

The overall portfolio directly exposed to oil and gas had drawn risk exposures amounting to \$31bn at 30 June 2016 (31 December 2015: \$29bn) with sub-sectoral distributions as follows: integrated producers 48%, service companies 29%, pure producers 16% and infrastructure companies 7%.

The credit quality distribution of the oil and gas portfolio was as follows: 'strong' and 'good' categories made up 50% of the portfolio, 'satisfactory' 32%, 'sub-standard' 14% and 'impaired' 4%. The majority of the exposures were located in North America, Asia and Europe.

Individually assessed loan impairment charges in 1H16 remained contained at approximately \$0.4bn.

The sector remains under enhanced monitoring with risk appetite and new lending significantly curtailed.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and leasing business, and also from certain other products such as guarantees and credit derivatives, and also from holding assets in the form of debt securities.

There have been no material changes to the policies and practices for the management of credit risk summarised in the Annual Report and Accounts 2015 in its 'Credit risk' section on page 118 and its Appendix to Risk on page 195.

Credit risk in the first half of 2016

An update on our oil and gas portfolio is provided in 'Areas of special interest' on page 67 of this Interim Report 2016. Reported loans and advances declined by \$36bn mainly due to foreign exchange effects reducing balances by \$25bn. Loan impairment charges for the period were \$2.3bn. In wholesale lending, loan impairment charges were mainly in North America, Latin America and Europe. In retail lending, they consisted of impairments mainly in Brazil. More details of loan impairment charges are on page 33.

The commentary that follows is on a constant currency basis, while tables are presented on a reported basis.

Information on currency movements is provided on page 78.

In wholesale lending, balances declined by \$6.9bn. Significant net decreases included \$3.5bn in North America, \$2.2bn in Asia and \$1.7bn in Europe.

In personal lending, balances decreased by \$4.0bn, consisting of \$5.9bn in North America partly offset by a \$1.0bn increase in Europe.

Summary of credit risk

	30 Jun 2016	31 Dec 2015
	Footnotes \$bn	\$bn
At end of period		
Maximum exposure to credit risk		
– total assets subject to credit risk	2,444	2,234
– off-balance sheet commitments subject to credit risk 1	713	713
	3,157	2,947
Gross loans and advances		
– personal lending	360	374

– wholesale lending		629	650		
		989	1,024		
Impaired loans					
– personal lending		9	12		
– wholesale lending		13	12		
		22	24		
Impaired loans as a % of gross loans and advances					
– personal lending		2.5	% 3.1	%	
– wholesale lending		2.0	% 1.9	%	
– total		2.2	% 2.3	%	
Impairment allowances		\$bn	\$bn		
– personal lending		2.4	2.9		
– wholesale lending		6.6	6.7		
		9.0	9.6		
Loans and advances net of impairment allowances		980	1,015		
	30 Jun	30 Jun	31 Dec		
	2016	2015	2015		
	\$bn	\$bn	\$bn		
For the period ended					
Loan impairment charges	2.3	1.5	2.1		
– personal lending	1.1	0.9	0.9		
– wholesale lending	1.2	0.6	1.2		
Other credit risk provisions	0.1	(0.1	) 0.2		
	2.4	1.4	2.3		

For footnote, see page 95.

Loans and advances

The following table analyses loans and advances by industry sector, and by the location of the principal operations of the lending subsidiary or, in the case of the operations of The Hongkong and Shanghai Banking Corporation, HSBC Bank plc, HSBC Bank Middle East and HSBC Bank USA, by the location of the lending branch. The distribution of loans across geographical regions and industries remained similar to last year.

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Gross loans and advances by industry sector and by geographical region

	Europe	Asia	MENA	North America	Latin America	Total	As a % of total gross loans
Footnotes	\$m	\$m	\$m	\$m	\$m	\$m	
Personal	159,288	134,416	6,596	53,433	5,981	359,714	36.4
– first lien residential mortgages	115,637	96,304	2,372	45,687	1,976	261,976	26.5
– other personal	43,651	38,112	4,224	7,746	4,005	97,738	9.9
Wholesale							
Corporate and commercial	179,089	203,162	21,988	63,347	11,373	478,959	48.4
– manufacturing	35,834	32,902	2,356	16,919	2,659	90,670	9.2
– international trade and services	59,069	68,347	9,616	11,549	2,637	151,218	15.3
– commercial real estate	23,268	31,505	606	8,077	1,266	64,722	6.5
– other property-related	7,637	34,987	1,654	9,448	441	54,167	5.5
– government	2,953	2,105	1,730	350	623	7,761	0.8
– other commercial	2 50,328	33,316	6,026	17,004	3,747	110,421	11.1
Financial	47,018	75,969	9,641	13,658	3,749	150,035	15.2
– non-bank financial institutions	30,522	16,466	2,472	7,615	761	57,836	5.9
– banks	16,496	59,503	7,169	6,043	2,988	92,199	9.3
Total wholesale	226,107	279,131	31,629	77,005	15,122	628,994	63.6
Total gross loans and advances at 30 Jun 2016	385,395	413,547	38,225	130,438	21,103	988,708	100.0
Percentage of total gross loans and advances	39.0	% 41.8	% 3.9	% 13.2	% 2.1	% 100.0	%
Personal	170,526	132,707	6,705	58,186	5,958	374,082	36.5
– first lien residential mortgages	125,544	94,606	2,258	50,117	1,986	274,511	26.8
– other personal	44,982	38,101	4,447	8,069	3,972	99,571	9.7
Wholesale							
Corporate and commercial	191,765	211,224	22,268	62,882	11,374	499,513	48.8
– manufacturing	39,003	34,272	2,504	17,507	2,572	95,858	9.4
– international trade and services	62,667	72,199	9,552	11,505	3,096	159,019	15.5
– commercial real estate	26,256	32,371	690	7,032	1,577	67,926	6.7
– other property-related	7,323	35,206	1,908	8,982	45	53,464	5.2
– government	3,653	1,132	1,695	203	772	7,455	0.7
– other commercial	2 52,863	36,044	5,919	17,653	3,312	115,791	11.3

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Financial	51,969	68,321	10,239	16,308	3,996	150,833	14.7
– non-bank financial institutions	33,621	13,969	2,321	9,822	681	60,414	5.9
– banks	18,348	54,352	7,918	6,486	3,315	90,419	8.8
Total wholesale	243,734	279,545	32,507	79,190	15,370	650,346	63.5
Total gross loans and advances at 31 Dec 2015	414,260	412,252	39,212	137,376	21,328	1,024,428	100.0
Percentage of total gross loans and advances	40.4	% 40.3	% 3.8	% 13.4	% 2.1	% 100.0	%

For footnote, see page 95.

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Risk (continued)

Assets held for sale

During 1H15, gross loans and advances and related impairment allowances arising in our Brazilian operations were reclassified from 'Loans and advances to customers' and 'Loans and advances to banks' to 'Assets held for sale' on the balance sheet. Although there was a reclassification on the balance sheet, there was no separate income statement reclassification. As a result, charges for loan impairment losses shown in the credit risk disclosures include loan impairment charges relating to financial assets classified as 'Assets held for sale'.

Loans and advances to banks and customers measured at amortised cost

	Total gross loans and advances \$m	Impairment allowances on loans and advances \$m
As reported	988,708	(8,953)
Reported in 'Assets held for sale'	28,265	(2,220)
At 30 Jun 2016	1,016,973	(11,173)

At 31 December 2015, the gross loans and advances and related impairment allowances of our Brazilian operations were \$23bn and \$1.4bn, respectively. Gross loans and advances increased by \$4.1 bn, mainly as a result of foreign exchange movements.

Credit quality of financial instruments

We assess credit quality on all financial instruments which bear credit risk. The distribution of financial instruments by credit quality is tabulated below.

Gross loans and impairment allowances on loans and advances to customers and banks reported in 'Assets held for sale'

	Brazil \$m	Other \$m	Total \$m
Gross loans			
Loans and advances to customers	20,528	1,644	22,172
– personal	6,954	1,529	8,483
– corporate and commercial	13,574	115	13,689
Financial	6,093	—	6,093
– non-bank financial institutions	761	—	761
– banks	5,332	—	5,332
At 30 Jun 2016	26,621	1,644	28,265
Impairment allowances			
Loans and advances to customers	(2,085)	(135)	(2,220)
– personal	(977)	(88)	(1,065)
– corporate and commercial	(1,108)	(47)	(1,155)
Financial	—	—	—
– non-bank financial institutions	—	—	—

– banks — — —

At 30 Jun 2016 (2,085) (135) (2,220)

The table below analyses the amount of LICs arising from assets held for sale. They primarily relate to our Brazilian operations, which we sold on 1 July 2016.

Loan impairment charges and other credit risk provisions

	Total \$m
LICs arising from:	
– assets held for sale	748
– assets not held for sale	1,618

Half-year to 30 Jun 2016 2,366

Distribution of total financial instruments exposed to credit risk by credit quality

Neither past due nor impaired

	Strong	Good	Satis-factory	Sub-standard	Past due but not impaired	Impaired	Total gross amount	Impairment allowances	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 30 Jun 2016	1,729,146	342,205	312,992	31,302	12,575	27,001	2,455,221	(11,173)	2,444,048
At 31 Dec 2015	1,553,830	331,141	293,178	26,199	13,030	28,058	2,245,436	(11,027)	2,234,409
	%	%	%	%	%	%	%		
At 30 Jun 2016	70.4	13.9	12.7	1.3	0.6	1.1	100.0		
At 31 Dec 2015	69.2	14.7	13.1	1.2	0.6	1.2	100.0		

The table above shows the credit quality distribution for all assets exposed to credit risk, including the balances relating to our Brazilian operations. The increase in ‘strong’ assets is mainly related to increases in cash and balances at central banks, trading assets and derivative assets as a result of the market volatility at the period-end.

Within the ‘Past due but not impaired’ amount at 30 June 2016, 99% was less than 90 days past due. This percentage was broadly unchanged compared with 31 December 2015.

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Distribution of loans and advances held at amortised cost by credit quality

Neither past due nor impaired

		Strong	Good	Satis-factory	Sub-standard	Past due but not impaired	Impaired	Total gross amount	Impairment allowances	Total
	Footnotes	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 30 Jun 2016										
Loans and advances to customers	3	445,645	204,657	192,404	20,375	11,509	21,919	896,509	(8,953)	) 887,556
– personal		301,138	26,959	15,338	839	6,274	9,166	359,714	(2,443)	) 357,271
– corporate and commercial		112,296	162,277	168,020	19,140	4,757	12,469	478,959	(6,262)	) 472,697
– non-bank financial institutions		32,211	15,421	9,046	396	478	284	57,836	(248)	) 57,588
Loans and advances to banks		77,229	8,336	6,239	390	5	—	92,199	—	) 92,199
At 31 Dec 2015										
Loans and advances to customers	3	472,691	214,152	194,393	16,836	12,179	23,758	934,009	(9,555)	) 924,454
– personal		309,720	29,322	15,021	944	7,568	11,507	374,082	(2,879)	) 371,203
– corporate and commercial		127,673	168,772	171,466	15,379	4,274	11,949	499,513	(6,435)	) 493,078
– non-bank financial institutions		35,298	16,058	7,906	513	337	302	60,414	(241)	) 60,173
Loans and advances to banks		73,226	11,929	4,836	407	1	20	90,419	(18)	) 90,401

For footnote, see page 95.

This table shows loans and advances held at amortised cost by credit quality distribution.

Impaired loans

Impaired gross loans and advances to customers and banks by industry sector

Impaired loans and advances at 30 Jun 2016			Impaired loans and advances at 31 Dec 2015		
Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
\$m	\$m	\$m	\$m	\$m	\$m

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Customers	15,017	6,618	21,635	14,482	8,974	23,456
– personal	2,687	6,479	9,166	2,670	8,837	11,507
– corporate and commercial	12,330	139	12,469	11,812	137	11,949
Financial	284	—	284	321	1	322
– non-bank financial institutions	284	—	284	301	1	302
– banks	—	—	—	20	—	20
	15,301	6,618	21,919	14,803	8,975	23,778

On a reported basis, during 1H16 impaired gross loans and advances declined by \$1.8bn. This was mainly due to a continued run-off of the US CML portfolio of \$2.2bn.

Renegotiated loans and forbearance

The most significant portfolio of renegotiated loans remained in personal loans held by HSBC Finance Corporation ('HSBC Finance') in North America. On a reported basis, during 1H16, total renegotiated loans decreased by \$5.9bn. The ongoing run-off and sales of the US CML portfolio reduced

renegotiated loans by \$5.4bn. In Europe renegotiated loans reduced mainly as a result of foreign exchange effects. The following tables show the gross carrying amounts of the Group's holdings of renegotiated loans and advances to customers by industry sector, geography and credit quality classification.

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Risk (continued)

Renegotiated loans and advances to customers by geographical region

	Footnotes	Europe \$m	Asia \$m	MENA \$m	North America \$m	Latin America \$m	Total \$m	
First lien residential mortgages		1,333	62	34	5,498	31	6,958	
– neither past due nor impaired		467	44	9	1,036	21	1,577	
– past due but not impaired		160	5	—	627	3	795	
– impaired		706	13	25	3,835	7	4,586	
Other personal lending		300	288	19	912	34	1,553	
– neither past due nor impaired		110	151	11	342	9	623	
– past due but not impaired		49	14	1	152	1	217	
– impaired		141	123	7	418	24	713	
Corporate and commercial	4	4,528	739	1,369	980	390	8,006	
– neither past due nor impaired		1,466	117	321	87	59	2,050	
– past due but not impaired		93	1	60	—	2	156	
– impaired		2,969	621	988	893	329	5,800	
Non-bank financial institutions		276	1	271	—	—	548	
– neither past due nor impaired		88	—	251	—	—	339	
– past due but not impaired		—	—	17	—	—	17	
– impaired		188	1	3	—	—	192	
Renegotiated loans at 30 Jun 2016		6,437	1,090	1,693	7,390	455	17,065	
– neither past due nor impaired		2,131	312	592	1,465	89	4,589	
– past due but not impaired		302	20	78	779	6	1,185	
– impaired		4,004	758	1,023	5,146	360	11,291	
Renegotiated loans as % of total gross loans to customers		1.7	% 0.3	% 5.5	% 5.9	% 2.5	% 1.9	%
Impairment allowances on renegotiated loans		1,090	233	527	729	144	2,723	
First lien residential mortgages			1,461	68	36	10,680	37	12,282
– neither past due nor impaired			512	47	11	3,376	27	3,973
– past due but not impaired			174	5	4	1,567	3	1,753
– impaired			775	16	21	5,737	7	6,556
Other personal lending			298	272	33	1,054	35	1,692
– neither past due nor impaired			131	141	24	410	10	716
– past due but not impaired			51	16	2	173	1	243
– impaired			116	115	7	471	24	733
Corporate and commercial			45,215	599	1,411	638	506	8,369
– neither past due nor impaired			1,467	119	343	93	130	2,152

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– past due but not impaired	109	—	14	—	—	123
– impaired	3,639	480	1,054	545	376	6,094
Non-bank financial institutions	340	4	272	—	—	616
– neither past due nor impaired	143	—	248	—	—	391
– past due but not impaired	—	—	24	—	—	24
– impaired	197	4	—	—	—	201
Renegotiated loans at 31 Dec 2015	7,314	943	1,752	12,372	578	22,959
– neither past due nor impaired	2,253	307	626	3,879	167	7,232
– past due but not impaired	334	21	44	1,740	4	2,143
– impaired	4,727	615	1,082	6,753	407	13,584
Renegotiated loans as % of total gross loans to customers	1.8%	0.3%	5.6%	9.5%	3.2%	2.5%
Impairment allowances on renegotiated loans	1,402	193	575	1,014	155	3,339
For footnotes, see page 95.						

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Loan impairment in the first half of 2016

Information in respect of loan impairment charges and other credit provisions is provided on page 33.

Loan impairment charge to the income statement by industry sector

	Footnotes	Europe \$m	Asia \$m	MENA \$m	North America \$m	Latin America \$m	Total \$m
Personal		103	152	59	135	611	1,060
– first lien residential mortgages		(3	) 5	9	94	3	108
– other personal		106	147	50	41	608	952
Corporate and commercial		284	185	(24	) 472	290	1,207
– manufacturing and international trade and services		15	134	11	41	172	373
– commercial real estate and other property-related		17	(33	) (8	) 2	22	—
– other commercial	2	252	84	(27	) 429	96	834
Financial		28	(2	) (1	) (9	) —	16
Total loan impairment charge for the half-year to 30 Jun 2016		415	335	34	598	901	2,283
Personal		113	145	24	101	488	871
– first lien residential mortgages		(32	) 2	(7	) 68	33	64
– other personal		145	143	31	33	455	807
Corporate and commercial		214	97	21	50	216	598
– manufacturing and international trade and services		103	109	(11	) 9	175	385
– commercial real estate and other property-related		(10	) 13	25	1	17	46
– other commercial	2	121	(25	) 7	40	24	167
Financial		(6	) —	(12	) (3	) (1	) (22
Total loan impairment charge for the half-year to 30 Jun 2015		321	242	33	148	703	1,447
Personal		150	164	98	56	495	963
– first lien residential mortgages		25	(3	) 56	2	8	88
– other personal		125	167	42	54	487	875
Corporate and commercial		218	275	174	269	235	1,171
– manufacturing and international trade and services		55	141	118	17	130	461
– commercial real estate and other property-related		43	5	24	23	30	125
– other commercial	2	120	129	32	229	75	585
Financial		20	—	(6	) (4	) 1	11
Total loan impairment charge for the half-year to 31 Dec 2015		388	439	266	321	731	2,145

For footnote, see page 95.

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Risk (continued)

Movement in impairment allowances on loans and advances to customers and banks

	Footnotes	Banks individually assessed \$m	Customers Individually assessed \$m	Collectively assessed \$m	Total \$m
At 1 Jan 2016		18	5,402	4,153	9,573
Amounts written off		(16)	(992)	(840)	(1,848)
Recoveries of loans and advances previously written off		—	44	296	340
Charge to income statement		(2)	1,265	1,020	2,283
Exchange and other movements	5	—	(319)	(1,076)	(1,395)
At 30 Jun 2016		—	5,400	3,553	8,953
Impairment allowances: on loans and advances to customers			5,400	3,553	8,953
– personal			479	1,964	2,443
– corporate and commercial			4,727	1,535	6,262
– non-bank financial institutions			194	54	248
as a percentage of gross loans and advances		—	% 0.6	% 0.4	% 0.9 %
as a percentage of impaired gross loans and advances		—	% 35.3	% 53.7	% 40.8 %
At 1 Jan 2015		49	6,195	6,142	12,386
Amounts written off		—	(727)	(1,463)	(2,190)
Recoveries of loans and advances previously written off		—	23	327	350
Charge to income statement		(8)	488	967	1,447
Exchange and other movements		5(3)	(780)	(1,432)	(2,215)
At 30 Jun 2015		38	5,199	4,541	9,778
Impairment allowances: on loans and advances to customers			5,199	4,541	9,740
– personal			425	2,914	3,339
– corporate and commercial			4,587	1,540	6,127
– non-bank financial institutions			187	87	274
as a percentage of gross loans and advances		—	% 0.5	% 0.5	% 0.9 %
as a percentage of impaired gross loans and advances		86.4%	% 36.8	% 41.3	% 38.8 %
At 1 Jul 2015		38	5,199	4,541	9,778
Amounts written off		—	(641)	(1,363)	(2,004)
Recoveries of loans and advances previously written off		—	63	395	458
Charge to income statement		(3)	1,028	1,120	2,145
Exchange and other movements		5(17)	(247)	(540)	(804)

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At 31 Dec 2015	18	5,402	4,153	9,573		
Impairment allowances:						
on loans and advances to customers		5,402	4,153	9,555		
– personal		426	2,453	2,879		
– corporate and commercial		4,800	1,635	6,435		
– non-bank financial institutions		176	65	241		
as a percentage of gross loans and advances	—	% 0.6	% 0.5	% 0.9	%	
as a percentage of impaired gross loans and advances	90.0%	36.5%	46.3%	40.2%	%	

For footnotes, see page 95.

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Risk (continued)

Charge for impairment losses as a percentage of average gross loans and advances to customers by geographical region

	Europe %	Asia %	MENA %	North America %	Latin America ₆ %	Total ₆ %
Half-year to 30 Jun 2016						
New allowances net of allowance releases	0.32	0.23	0.34	0.99	5.40	0.59
Recoveries	(0.08)	(0.04)	(0.09)	(0.05)	(0.42)	(0.08)
Total charge for impairment losses	0.24	0.19	0.25	0.94	4.98	0.51
Amount written off net of recoveries	0.32	0.12	0.99	0.48	1.40	0.33
Half-year to 30 Jun 2015						
New allowances net of allowance releases	0.27	0.18	0.32	0.29	3.65	0.39
Recoveries	(0.09)	(0.04)	(0.11)	(0.06)	(0.30)	(0.08)
Total charge for impairment losses	0.18	0.14	0.21	0.23	3.35	0.31
Amount written off net of recoveries	0.22	0.09	1.67	0.57	3.19	0.40
Half-year to 31 Dec 2015						
New allowances net of allowance releases	0.35	0.29	1.81	0.53	5.49	0.57
Recoveries	(0.13)	(0.05)	(0.10)	(0.05)	(0.57)	(0.10)
Total charge for impairment losses	0.22	0.24	1.71	0.48	4.92	0.47
Amount written off net of recoveries	0.29	0.15	0.31	0.32	3.31	0.34

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Risk (continued)

Wholesale lending

Wholesale lending covers the range of credit facilities

granted to sovereign borrowers, banks, non-bank financial institutions, corporate entities and commercial borrowers.

Total wholesale lending

	Footnotes	Europe \$m	Asia \$m	MENA \$m	North America \$m	Latin America \$m	Total \$m
Corporate and commercial		179,089	203,162	21,988	63,347	11,373	478,959
– manufacturing		35,834	32,902	2,356	16,919	2,659	90,670
– international trade and services		59,069	68,347	9,616	11,549	2,637	151,218
– commercial real estate		23,268	31,505	606	8,077	1,266	64,722
– other property-related		7,637	34,987	1,654	9,448	441	54,167
– government		2,953	2,105	1,730	350	623	7,761
– other commercial	2	50,328	33,316	6,026	17,004	3,747	110,421
Financial		47,018	75,969	9,641	13,658	3,749	150,035
– non-bank financial institutions		30,522	16,466	2,472	7,615	761	57,836
– banks		16,496	59,503	7,169	6,043	2,988	92,199
Gross loans at 30 Jun 2016		226,107	279,131	31,629	77,005	15,122	628,994
Impairment allowances on wholesale lending							
Corporate and commercial		2,494	1,345	1,034	1,059	330	6,262
– manufacturing		502	292	97	139	34	1,064
– international trade and services		578	638	434	101	36	1,787
– commercial real estate		538	12	145	76	110	881
– other property-related		184	32	214	47	70	547
– government		2	—	1	1	2	6
– other commercial		690	371	143	695	78	1,977
Financial		211	9	6	22	—	248
– non-bank financial institutions		211	9	6	22	—	248
– banks		—	—	—	—	—	—
Impairment allowances at 30 Jun 2016		2,705	1,354	1,040	1,081	330	6,510
Corporate and commercial		191,765	211,224	22,268	62,882	11,374	499,513
– manufacturing		39,003	34,272	2,504	17,507	2,572	95,858
– international trade and services		62,667	72,199	9,552	11,505	3,096	159,019
– commercial real estate		26,256	32,371	690	7,032	1,577	67,926
– other property-related		7,323	35,206	1,908	8,982	45	53,464
– government		3,653	1,132	1,695	203	772	7,455
– other commercial	2	52,863	36,044	5,919	17,653	3,312	115,791

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Financial	51,969	68,321	10,239	16,308	3,996	150,833
– non-bank financial institutions	33,621	13,969	2,321	9,822	681	60,414
– banks	18,348	54,352	7,918	6,486	3,315	90,419
Gross loans at 31 Dec 2015	243,734	279,545	32,507	79,190	15,370	650,346
Impairment allowances on wholesale lending						
Corporate and commercial	2,735	1,256	1,157	777	510	6,435
– manufacturing	528	254	135	140	49	1,106
– international trade and services	813	599	439	123	48	2,022
– commercial real estate	613	35	145	76	343	1,212
– other property-related	237	72	267	55	1	632
– government	6	—	—	—	2	8
– other commercial	538	296	171	383	67	1,455
Financial	194	13	22	30	—	259
– non-bank financial institutions	194	13	4	30	—	241
– banks	—	—	18	—	—	18
Impairment allowances at 31 Dec 2015	2,929	1,269	1,179	807	510	6,694
For footnote, see page 95.						

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On a reported basis, gross loans decreased by \$21bn, mainly due to foreign exchange movements of \$14bn. The commentary that follows is on a constant currency basis, while tables are presented on a reported basis. Wholesale lending decreased by \$6.9bn in 1H16. In North America, it decreased by \$3.5bn, primarily driven by a decline in the US in ‘financial’.

In Asia, there was a decline of \$2.2bn overall. This consisted of decreases across ‘international trade and services’, ‘other commercial’ and ‘manufacturing’ totalling \$9.0bn, driven by the continuation of the slowdown in trade and maturity of term loans, partly offset by a \$7.2bn increase in ‘financial’.

In Europe, overall balances declined by \$1.7bn. In ‘corporate and commercial’ there was an increase in lending of \$8bn which was offset by a reduction of \$8bn relating to corporate overdraft balances where a small number of clients benefit from the use of net interest arrangements between overdrafts and deposits.

Personal lending

We provide a broad range of secured and unsecured personal lending products to meet customer needs. Personal lending includes loans secured on assets such as first liens on residential property, and unsecured lending products such as overdrafts, credit cards and payroll loans.

Total personal lending

	Europe	Asia	MENA	North America	Latin America	Total
	\$m	\$m	\$m	\$m	\$m	\$m
First lien residential mortgages	115,637	96,304	2,372	45,687	1,976	261,976
Of which:						
– interest only (including offset)	37,995	922	—	162	—	39,079
– affordability (including ARMs)	325	3,705	—	15,608	—	19,638
Other personal lending	43,651	38,112	4,224	7,746	4,005	97,738
– other	32,788	28,143	2,986	3,375	2,000	69,292
– credit cards	10,754	9,778	894	974	1,642	24,042
– second lien residential mortgages	105	30	2	3,367	—	3,504
– motor vehicle finance	4	161	342	30	363	900
Total gross loans at 30 Jun 2016	159,288	134,416	6,596	53,433	5,981	359,714
Impairment allowances on personal lending						
First lien residential mortgages	250	33	70	594	18	965
Other personal lending	619	253	172	211	223	1,478
– other	359	129	141	30	104	763
– credit cards	260	123	25	32	116	556
– second lien residential mortgages	—	—	—	149	—	149
– motor vehicle finance	—	1	6	—	3	10
Total impairment allowances at 30 Jun 2016	869	286	242	805	241	2,443
First lien residential mortgages	125,544	94,606	2,258	50,117	1,986	274,511
Of which:						
– interest only (including offset)	40,906	936	—	180	—	42,022
– affordability (including ARMs)	356	3,966	—	17,041	—	21,363

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Other personal lending	44,982	38,101	4,447	8,069	3,972	99,571
– other	32,862	27,682	3,147	3,284	1,816	68,791
– credit cards	12,115	10,189	929	996	1,780	26,009
– second lien residential mortgages	—	33	2	3,762	—	3,797
– motor vehicle finance	5	197	369	27	376	974
Total gross loans at 31 Dec 2015	170,526	132,707	6,705	58,186	5,958	374,082
Impairment allowances on personal lending						
First lien residential mortgages	278	29	24	991	22	1,344
Other personal lending	667	227	214	241	186	1,535
– other	401	104	180	31	80	796
– credit cards	265	122	29	30	102	548
– second lien residential mortgages	—	—	—	180	—	180
– motor vehicle finance	1	1	5	—	4	11
Total impairment allowances 31 Dec 2015	945	256	238	1,232	208	2,879

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Risk (continued)

On a reported basis, total personal lending reduced by \$14bn, mainly due to adverse foreign exchange movements of \$10bn and the ongoing run-off and sales of our US CML portfolio in North America of \$6.7bn.

Loan impairment allowances reduced by \$0.4bn, largely due to the reduction in our US CML run-off portfolio.

Loan impairment charges were \$1.1bn for 1H16, \$0.2bn more than 1H15 due largely to the deterioration of economic conditions in Brazil.

While the tables are presented on a reported basis, the commentary that follows is on a constant currency basis and excludes the effect of the ongoing run-off and sales of our US CML portfolio.

Total personal lending grew by \$2.6bn compared with 31 December 2015, with mortgage balances increasing by \$3.0bn, mainly in the UK which increased by \$1.7bn reflecting the growth of the UK mortgage market in 1H16. There were increases in China of \$1.0bn and Canada of \$0.7bn, both as a result of business growth initiatives. The increase was partly offset by a \$0.9bn reduction in Singapore following our decision to constrain the size of our mortgage portfolio in the country. In France there was a reclassification of \$0.8bn from residential mortgages to commercial real estate.

The quality of both our Hong Kong and UK mortgage books remained high, with negligible defaults and impairment allowances. The average loan to value ('LTV') ratio on new mortgage lending in Hong Kong was 42% compared with an estimated 32% for the overall mortgage portfolio. The LTV ratio on new lending in the UK was 59% compared with the average of 41% for the total mortgage portfolio.

Other personal lending decreased by \$0.4bn mainly due to a decrease in Switzerland of \$1.3bn because of the continued repositioning of Global Private Banking. This was largely offset by a \$1.9bn increase in France due to the

reclassification of certain portfolios, moving them from commercial real estate to other personal lending.

HSBC Finance

Residential mortgages, including second lien mortgages, decreased by \$6.7bn to \$12bn at 30 June 2016. In addition to the continued loan sales in the US CML run-off portfolio, we transferred a further \$5.9bn to 'Assets held for sale' during 1H16, and these loans were mainly sold in April, May and July 2016. The average gain on sale of foreclosed properties that arose after we took title to the property was 1%.

The decrease in impairment allowances from \$1.0bn at 31 December 2015 to \$0.6bn at 30 June 2016 reflected reduced levels of delinquency and lower newly impaired loans and loan balances outstanding as a result of continued sale and liquidation of the portfolio.

Across the first and second lien residential mortgages in our US CML run-off portfolio, two-months-and-over delinquent balances reduced by \$0.1bn to \$1.0bn during 1H16, reflecting the continued portfolio run-off and loan sales.

Renegotiated real estate secured accounts in HSBC Finance reduced by \$5.4bn or 50% and represented 82% at 30 June 2016 (31 December 2015: 91%) of our total renegotiated loans in North America, of which \$3.2bn were classified as impaired (31 December 2015: \$5.1bn). During 1H16, the aggregate number of renegotiated loans in HSBC Finance reduced due to portfolio run-off and further loan sales in the US CML portfolio.

HSBC Bank USA

In HSBC Bank USA, mortgage balances of \$18bn at 30 June 2016 were broadly unchanged compared with 31 December 2015 with normal run-off being replaced with new originations. We continued to sell all new originations classed as agency-eligible in the secondary market.

Supplementary information

Gross loans and advances by industry sector

	31 Dec 2015	Currency effect	Movement	30 Jun 2016
Footnotes	\$m	\$m	\$m	\$m

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Personal		374,082	(10,339) (4,029) 359,714
– first lien residential mortgages		274,511	(9,206) (3,329) 261,976
– other personal		99,571	(1,133	) (700	) 97,738
Corporate and commercial		499,513	(11,023	) (9,531	) 478,959
– manufacturing		95,858	(2,400	) (2,788	) 90,670
– international trade and services		159,019	(3,466	) (4,335	) 151,218
– commercial real estate		67,926	(1,344	) (1,860	) 64,722
– other property-related		53,464	(391	) 1,094	54,167
– government		7,455	(151	) 457	7,761
– other commercial	2	115,791	(3,271	) (2,099	) 110,421
Financial		150,833	(3,392	) 2,594	150,035
– non-bank financial institutions		60,414	(2,685	) 107	57,836
– banks		90,419	(707	) 2,487	92,199
Total gross loans and advances		1,024,428	(24,754	) (10,966	) 988,708
Impaired loans and advances to customers		23,758	(560	) (1,279	) 21,919
Impairment allowances on loans and advances to customers		9,555	(193) (409) 8,953
For footnote, see page 95.					

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The currency effect on personal lending gross loans and advances of \$10bn was made up as follows: Europe \$12bn, Asia \$(1.2)bn and North America \$(1.2)bn. The currency effect on wholesale lending gross loans and advances of

\$(14)bn was made up as follows: Europe \$(16)bn, Asia \$1.8bn, North America \$1.3bn, Latin America \$(1.0)bn and Middle East and North Africa \$(0.5)bn.

Impaired loans and allowances by geographical region – reconciliation of reported and constant currency changes

	31 Dec 2015 as reported	Currency translation adjustment ₇	31 Dec 2015 at 30 Jun 2016 exchange rates	Movement on a constant currency basis	30 Jun 2016 as reported	Reported change ₇	Constant currency change ₇
	\$m	\$m	\$m	\$m	\$m	%	%
Impaired loans							
Europe	9,677	(542)	9,135	(61)	9,074	(6.2)	(0.7)
Asia	2,375	45	2,420	344	2,764	16.4	14.2
Middle East and North Africa	1,766	(25)	1,741	(55)	1,686	(4.5)	(3.2)
North America	8,930	27	8,957	(1,341)	7,616	(14.7)	(15.0)
Latin America	1,030	(65)	965	(186)	779	(24.4)	(19.3)
	23,778	(560)	23,218	(1,299)	21,919	(7.8)	(5.6)
Impairment allowances							
Europe	3,869	(176)	3,693	(119)	3,574	(7.6)	(3.2)
Asia	1,525	19	1,544	96	1,640	7.5	6.2
Middle East and North Africa	1,418	(15)	1,403	(121)	1,282	(9.6)	(8.6)
North America	2,041	26	2,067	(181)	1,886	(7.6)	(8.8)
Latin America	720	(47)	673	(102)	571	(20.7)	(15.2)
	9,573	(193)	9,380	(427)	8,953	(6.5)	(4.6)

For footnote, see page 95.

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Risk (continued)

Gross loans and advances to customers by country

	First lien residential mortgages \$m	Other personal \$m	Property- related \$m	Commercial, international trade and other \$m	Total \$m
Europe	115,637	43,651	30,905	178,706	368,899
– UK	108,049	18,903	23,649	134,074	284,675
– France	2,871	14,267	5,417	21,631	44,186
– Germany	2	197	446	9,468	10,113
– Switzerland	614	6,903	127	826	8,470
– other	4,101	3,381	1,266	12,707	21,455
Asia	96,304	38,112	66,492	153,136	354,044
– Hong Kong	61,221	24,103	49,082	79,831	214,237
– Australia	9,905	753	1,869	6,519	19,046
– India	1,284	390	689	6,579	8,942
– Indonesia	60	342	71	4,816	5,289
– Mainland China	6,591	1,358	5,795	21,451	35,195
– Malaysia	3,039	3,372	1,973	4,251	12,635
– Singapore	7,252	5,715	3,466	9,939	26,372
– Taiwan	3,972	678	81	4,267	8,998
– other	2,980	1,401	3,466	15,483	23,330
Middle East and North Africa (excluding Saudi Arabia)	2,372	4,224	2,260	22,200	31,056
– Egypt	1	514	83	2,091	2,689
– UAE	1,955	2,074	1,736	13,872	19,637
– other	416	1,636	441	6,237	8,730
North America	45,687	7,746	17,525	53,437	124,395
– US	28,277	4,418	12,492	39,324	84,511
– Canada	16,121	3,116	4,760	13,408	37,405
– other	1,289	212	273	705	2,479
Latin America	1,976	4,005	1,707	10,427	18,115
– Mexico	1,864	2,930	1,595	7,936	14,325
– other	112	1,075	112	2,491	3,790
At 30 Jun 2016	261,976	97,738	118,889	417,906	896,509
Europe	125,544	44,982	33,579	191,807	395,912
– UK	117,346	20,797	25,700	149,327	313,170
– France	3,606	12,130	6,070	20,380	42,186
– Germany	4	203	347	7,941	8,495
– Switzerland	511	8,045	224	834	9,614
– other	4,077	3,807	1,238	13,325	22,447

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Asia	94,606	38,101	67,577	157,616	357,900
– Hong Kong	60,943	24,389	50,825	80,609	216,766
– Australia	9,297	726	1,592	6,448	18,063
– India	1,248	431	637	5,728	8,044
– Indonesia	56	346	71	4,965	5,438
– Mainland China	5,716	1,645	6,185	23,703	37,249
– Malaysia	2,792	3,113	1,993	4,947	12,845
– Singapore	7,743	5,392	3,334	11,021	27,490
– Taiwan	3,866	629	126	5,291	9,912
– other	2,945	1,430	2,814	14,904	22,093
Middle East and North Africa (excluding Saudi Arabia)	2,258	4,447	2,598	21,991	31,294
– Egypt	1	549	104	2,097	2,751
– UAE	1,854	2,286	1,833	14,199	20,172
– other	403	1,612	661	5,695	8,371
North America	50,117	8,069	16,014	56,690	130,890
– US	34,382	4,813	11,435	42,439	93,069
– Canada	14,418	3,029	4,315	13,490	35,252
– other	1,317	227	264	761	2,569
Latin America	1,986	3,972	1,622	10,433	18,013
– Mexico	1,881	2,828	1,498	7,844	14,051
– other	105	1,144	124	2,589	3,962
At 31 Dec 2015	274,511	99,571	121,390	438,537	934,009

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Risk elements in the loan portfolio

The disclosure of credit risk elements in this section reflects US accounting practice and classifications. The purpose of the disclosure is to present within the US disclosure framework those elements of the loan portfolios with a greater risk of loss. The three main classifications of credit risk elements presented are:

- impaired loans;
- unimpaired loans contractually past due 90 days or more as to interest or principal; and
- troubled debt restructurings not included in the above.

Impaired loans

In the following tables, we present information on our impaired loans and advances in accordance with the classification approach described on page 128 of the Annual Report and Accounts 2015.

A loan is impaired, and an impairment allowance is recognised, when there is objective evidence of a loss event that has an effect on the cash flows of the loan which can be reliably estimated. In accordance with IFRSs, we recognise interest income on assets after they have been written down as a result of an impairment loss.

The balance of impaired loans at 30 June 2016 was \$1.9bn lower than at 31 December 2015. This change was largely due to the continued run-off of the US CML portfolio.

Unimpaired loans past due 90 days or more

Examples of unimpaired loans past due 90 days or more include individually assessed mortgages that are in arrears more than 90 days where there are no other indicators of impairment, but where the value of collateral is sufficient to repay both the principal debt and all potential interest for at least one year; and short-term trade facilities past due more than 90 days for technical reasons such as delays in documentation, but where there is no concern over the creditworthiness of the counterparty.

The amount of unimpaired loans past due 90 days or more at 30 June 2016 was \$115m and was broadly unchanged from the prior period.

Troubled debt restructurings

Under US GAAP, a troubled debt restructuring ('TDR') is a loan the terms of which have been modified for economic or legal reasons related to the borrower's financial difficulties to grant a concession to the borrower that the lender would not otherwise consider. A modification which results in a delay in payment that is considered insignificant is not regarded as a concession for the purposes of this disclosure. The SEC requires separate disclosure of any loans which meet the definition of a TDR that are not included in the previous two loan categories. These are classified as TDR's in the table on page [16a-2]. Loans that have been identified as TDRs under the US guidance retain this designation until they are repaid or are derecognised. This treatment differs

from the Group's impaired loans disclosure convention under IFRS under which a loan may return to unimpaired status after demonstrating a significant reduction in the risk of non-payment of future cash flows. As a result reported TDRs include those loans that have returned to unimpaired status under the Group's disclosure convention for renegotiated loans.

The balance of TDRs not included as impaired loans at 30 June 2016 was \$3.8bn, \$2.3bn lower than 31 December 2015 due to the continued run-off of the US CML portfolio.

Potential problem loans

Potential problem loans are loans where information on possible credit problems among borrowers causes management to seriously doubt their ability to comply with the loan repayment terms. The following concentrations of credit risk have a higher risk of containing potential problem loans.

'Mortgage lending' on page 76 includes disclosure about certain homogeneous groups of loans which are collectively assessed for impairment, which may represent exposures to potential problem loans, including interest-only mortgages and affordability mortgages, including ARMs. Collectively assessed loans and advances although not classified as impaired until more than 90 days past due, are assessed collectively for losses that have been incurred but have not yet been individually identified. This policy is further described on pages 201 of the Form 20-F for 2015 filed with the Securities and Exchange Commission and available on our website www.hsbc.com under Investor Relations.

'Renegotiated loans and forbearance' on page 70 includes disclosure about the credit quality of loans whose contractual payment terms have been changed at some point in the life of the loan because of significant concerns about the

borrower's ability to make contractual payments when due. Renegotiated loans are classified as impaired when:
• there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider; and
• it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

This presentation applies unless the concession is insignificant and there are no other indicators of impairment. The renegotiated loan will continue to be disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. Renegotiated loans that are not classified as impaired may have a higher risk of becoming delinquent in the future, and may therefore be potential problem loans. Further information regarding the credit quality classification of renegotiated loans can be found on page 196 of the Form 20-F for 2015 filed with the Securities and Exchange Commission and available on our website www.hsbc.com under Investor Relations.

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Analysis of risk elements in the loan portfolio by geographical region

The analysis below sets out the amount of risk elements in loan portfolios included within loans and advances to customers and banks in the consolidated balance sheet, trading loans classified as in default and assets obtained by taking possession of security. The table excludes the amount of risk elements in loan portfolios classified as assets held for sale in the consolidated balance sheet, which is set out in footnote 2.

		At 30 Jun 2016	At 31 Dec 2015
	Footnotes	\$m	\$m
Impaired loans		21,919	23,778
– Europe		9,074	9,677
– Asia		2,764	2,375
– Middle East and North Africa		1,686	1,766
– North America		7,616	8,930
– Latin America		779	1,030
Unimpaired loans contractually past due 90 days or more as to principal or interest		113	132
– Europe		73	7
– Asia		1	2
– Middle East and North Africa		36	96
– North America		3	27
– Latin America		—	—
Troubled debt restructurings (not included in the classifications above)		3,829	6,225
– Europe		1,383	1,495
– Asia		292	284
– Middle East and North Africa		599	584
– North America		1,470	3,698
– Latin America		85	164
Risk elements on loans		25,861	30,135
– Europe		10,530	11,179
– Asia		3,057	2,661
– Middle East and North Africa		2,321	2,446
– North America		9,089	12,655
– Latin America		864	1,194
Assets held for resale	1	150	179
– Europe		21	24
– Asia		32	19
– Middle East and North Africa		—	—
– North America		87	116
– Latin America		10	20
Total risk elements	2	26,011	30,314
– Europe		10,551	11,203
– Asia		3,089	2,680
– Middle East and North Africa		2,321	2,446
– North America		9,176	12,771
– Latin America		874	1,214

		%	%
Loan impairment allowances as a percentage of risk elements on loans	3	34.6	31.8
<p>1 Assets held for resale represent assets obtained by taking possession of collateral held as security for financial assets. In addition to the numbers presented there were \$3.6bn of impaired loans (31 December 2015: \$2.1bn); nil</p> <p>2 unimpaired loans contractually more than 90 days past due as to principal or interest (31 December 2015: nil) and nil troubled debt restructurings (not included in the classifications above) (31 December 2015: \$8m), all relating to assets held for sale at 30 June 2016.</p> <p>3 Ratio excludes trading loans classified as in default.</p>			

Securitisation exposures and other structured products

The following table summarises the carrying amount of our asset-backed securities ('ABSs') exposure by categories of collateral. It includes assets held in the GB&M legacy credit portfolio with a carrying value of \$13bn (31 December 2015: \$15bn).

At 30 June 2016, the available-for-sale reserve in respect of ABSs was a deficit of \$713m (31 December 2015: \$1,021m). For 2016, the impairment write-back in respect of ABSs was \$17m (31 December 2015: \$85m).

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Carrying amount of HSBC's consolidated holdings of ABSs

	Trading	Available for sale	Held to maturity	Designated at fair value through profit or loss	Loans and receivables	Total	Of which held through consolidated structured entities
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Mortgage-related assets	1,414	20,594	13,198	—	424	35,630	3,566
– sub-prime residential	67	1,828	—	—	115	2,010	727
– US Alt-A residential	—	1,688	6	—	47	1,741	1,576
– US Government agency and sponsored enterprises: MBSs	163	14,831	13,192	—	—	28,186	—
– other residential	708	578	—	—	92	1,378	187
– commercial property	476	1,669	—	—	170	2,315	1,076
Leveraged finance-related assets	204	1,814	—	—	134	2,152	932
Student loan-related assets	146	2,853	—	—	18	3,017	2,576
Other assets	1,173	787	—	36	65	2,061	458
At 30 Jun 2016	2,937	26,048	13,198	36	641	42,860	7,532
Mortgage-related assets	1,641	22,406	14,004	1	496	38,548	4,780
– sub-prime residential	73	2,247	—	1	132	2,453	1,075
– US Alt-A residential	—	1,989	7	—	55	2,051	1,796
– US Government agency and sponsored enterprises: MBSs	166	15,082	13,997	—	—	29,245	—
– other residential	812	780	—	—	108	1,700	253
– commercial property	590	2,308	—	—	201	3,099	1,656
Leveraged finance-related assets	240	2,294	—	—	149	2,683	1,310
Student loan-related assets	236	2,991	—	—	25	3,252	2,679
Other assets	1,184	880	—	23	128	2,215	565
At 31 Dec 2015	3,301	28,571	14,004	24	798	46,698	9,334

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Risk (continued)

Liquidity and funding

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. The risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time. The risk arises when the funding needed for illiquid asset positions cannot be obtained at the expected terms and when required.

This section supersedes the information included in the Annual Report and Accounts 2015 from pages 154 to 165.

Our liquidity and funding risk management framework

The objective of the Group's internal liquidity and funding risk framework ('LFRF') is to allow it to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations.

The Group does not manage liquidity risk and funding risk centrally on a Group consolidated basis. They are managed by operating entity on a standalone basis with no implicit reliance assumed on any other Group entity unless pre-committed.

All operating entities are required to manage liquidity and funding risks in accordance with the LFRF.

On 1 January 2016, the Group introduced a new LFRF. It uses the liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR') regulatory framework as a foundation, but adds extra metrics, limits and overlays to address the risks that we consider are not adequately reflected by the regulatory framework.

The LFRF is delivered using the following key aspects:

- stand-alone management of liquidity and funding by operating entity;
- operating entity classification by inherent liquidity risk ('ILR') categorisation;
- minimum LCR requirement depending on ILR categorisation;
- minimum NSFR requirement depending on ILR categorisation;
- legal entity depositor concentration limit;
- three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from banks, deposits from non-bank financial institutions and securities issued;
- annual individual liquidity adequacy assessment ('ILAA') by principal operating entity;
- minimum LCR requirement by currency;
- intra-day liquidity; and
- forward-looking funding assessments.

The new internal LFRF and the risk tolerance limits have been approved by the Board on the basis of recommendations made by the Group Risk Committee, and the metrics below are being disclosed for the first time following the implementation of the new LFRF. There are therefore no comparatives.

Our ILAA process aims to:

- identify risks that are not reflected in the LFRF and, where required, to assess additional limits to be required locally; and
- validate the risk tolerance at the operating entity level by demonstrating that reverse stress testing scenarios are acceptably remote and that vulnerabilities have been assessed through the use of severe stress scenarios.

Liquidity and funding in the first half of 2016

The liquidity position of the Group remained strong in 1H16. Our liquidity coverage ratio was 137% with unencumbered liquid assets of \$474bn.

Management of liquidity and funding risk

Liquidity coverage ratio

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile, and became a minimum regulatory standard from 1 October 2015, under EC Delegated Regulation 2015/61.

It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLAs consist of cash or assets that can be converted into cash at little or no loss of value in markets.

The calculation of the LCR metric involves two key assumptions about the definition of operational deposits and the ability to transfer liquidity from non-EU legal entities.

We define operational deposits as transactional (current) accounts arising from the provision of custody services by HSBC Security Services and Global Liquidity and Cash Management, where the operational component is assessed to be the lower of the current balance and the separate notional values of debits and credits across the account in the previous calculation period.

We assume no transferability of liquidity from non-EU entities other than to the extent currently permitted.

This results in \$108bn of HQLA being excluded from the Group's LCR.

On the basis of these assumptions, we reported to the UK's Prudential Regulation Authority ('PRA') a Group EC LCR at 30 June 2016 of 137%.

The ratio of total consolidated HQLAs to the EC LCR denominator at 30 June 2016 was 169%, reflecting the additional \$108bn of HQLAs excluded from the Group LCR.

The liquidity position of the Group can also be represented by the stand-alone ratios of each of our principal operating entities. The Board and the Risk Management Meeting of the Group Management Board declare the initial criterion for categorising an operating entity as a principal entity is based on its material balance sheet size.

The table below displays the individual LCR levels for our principal operating entities on an EC LCR Delegated Regulation basis. The ratios shown for operating entities in non-EU jurisdictions can vary from their local LCR measures due to differences in the way non-EU regulators have implemented the Basel III recommendations.

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Operating entities' LCRs

		At Footnotes 30 Jun 2016 %
HSBC UK liquidity group	8	126
The Hongkong and Shanghai Banking Corporation – Hong Kong Branch	9	198
The Hongkong and Shanghai Banking Corporation – Singapore Branch	9	206
HSBC Bank USA		113
HSBC France		134
Hang Seng Bank		246
HSBC Bank Canada		143
HSBC Bank China		180
HSBC Middle East – UAE branch		251
HSBC Mexico		166
HSBC Private Bank		188

For footnotes, see page 95.

At 30 June 2016, all the Group's principal operating entities were within the risk tolerance level established by the Board and applicable under the new internal framework.

Net stable funding ratio

The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The European calibration of NSFR is pending following the Basel Committee's final recommendation in October 2014. We calculate NSFR in line with the relevant text (Basel Committee on Banking Supervision publication 295), pending its implementation in Europe. This calculation requires various interpretations of the text as it stands, and therefore HSBC's NSFR may not be directly comparable with the ratios of other institutions.

The table below displays the individual NSFR levels for the principal HSBC operating entities on a BCBS295 basis.

Operating entities' NSFRs

		At Footnotes 30 Jun 2016 %
HSBC UK liquidity group	8	118
The Hongkong and Shanghai Banking Corporation – Hong Kong Branch	9	164
The Hongkong and Shanghai Banking Corporation – Singapore Branch	9	120
HSBC Bank USA		115
HSBC France		117
Hang Seng Bank		161
HSBC Bank Canada		137
HSBC Bank China		146
HSBC Middle East – UAE Branch		141
HSBC Mexico		127
HSBC Private Bank		149

For footnotes, see page 95.

At 30 June 2016, all the Group's principal operating entities were within the risk tolerance level established by the Board and applicable under the new internal framework.

Depositor Concentration and Term Funding Maturity Concentration

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each deposit segment. The validity of these assumptions is challenged if the underlying depositors do not represent a large enough

portfolio so that a depositor concentration exists.

Operating entities are exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

At 30 June 2016, all principal operating entities were within the risk tolerance levels set for depositor concentration and term funding maturity concentration. These risk tolerances were established by the Board and are applicable under the LFRF.

Liquid assets of HSBC's principal operating entities

The table below shows the unweighted liquidity value of assets categorised as liquid and used for the purposes of calculating the LCR metric.

The level of liquid assets reported reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets.

Liquid assets are held and managed on a stand-alone operating entity basis. Most of the liquid assets shown are held directly by each operating entity's Balance Sheet Management ('BSM') department, primarily for the purpose of managing liquidity risk, in line with the LFRF.

The liquid asset buffer may also include securities held in held-to-maturity portfolios. In order to qualify as part of the liquid asset buffer, all held-to-maturity portfolios must have a deep and liquid repo market in the underlying security. Liquid assets also include any unencumbered liquid asset held outside BSM for any other purpose. The LFRF gives ultimate control of all unencumbered assets and sources of liquidity to BSM.

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Risk (continued)

Liquid assets of HSBC's principal entities

		Recognised at 30 Jun 2016 at:	
	Footnotes	Group and entity level \$m	entity level only \$m
HSBC UK liquidity group	8		
Level 1		164,116	164,116
Level 2a		4,145	4,145
Level 2b		932	932
		169,193	169,193
The Hongkong and Shanghai Banking Corporation – Hong Kong Branch	9		
Level 1		67,885	123,349
Level 2a		7,169	7,169
Level 2b		3,283	3,283
		78,337	133,801
Hang Seng Bank			
Level 1		18,485	35,702
Level 2a		1,862	1,862
Level 2b		207	207
		20,554	37,771
HSBC Bank USA			
Level 1		57,320	66,455
Level 2a		13,100	13,100
Level 2b		4	4
		70,424	79,559
Total of HSBC's other principal entities	10		
Level 1		73,363	87,046
Level 2a		6,741	6,741
Level 2b		214	214
		80,318	94,001

For footnotes, see page 95.

Sources of funding

Our primary sources of funding are customer current accounts and customer savings deposits payable on demand or at short notice. We issue wholesale securities (secured and unsecured) to supplement our customer deposits and change the currency mix, maturity profile or location of our liabilities.

The level of customer accounts continued to exceed the level of loans and advances to customers. The positive funding gap was predominantly deployed into liquid assets, cash and balances with central banks and financial

investments, as required by the LFRF.

Loans and other advances to banks continued to exceed deposits by banks.

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Consolidated funding sources and uses

	At	
	30 Jun	31 Dec
	2016	2015
	\$m	\$m
Sources		
Customer accounts	1,290,958	1,289,586
Deposits by banks	69,900	54,371
Repurchase agreements – non-trading	98,342	80,400
Debt securities in issue	87,673	88,949
Liabilities of disposal groups held for sale	43,705	36,840
Subordinated liabilities	21,669	22,702
Financial liabilities designated at fair value	78,882	66,408
Liabilities under insurance contracts	73,416	69,938
Trading liabilities	188,698	141,614
– repos	957	442
– stock lending	8,487	8,859
– settlement accounts	36,173	10,530
– other trading liabilities	143,081	121,783
Total equity	198,297	197,518
	2,151,540	2,048,326
	At	
	30 Jun	31 Dec
	2016	2015
	\$m	\$m
Uses		
Loans and advances to customers	887,556	924,454
Loans and advances to banks	92,199	90,401
Reverse repurchase agreements – non-trading	187,826	146,255
Assets held for sale	50,305	43,900
Trading assets	280,295	224,837
– reverse repos	3,634	438
– stock borrowing	11,278	7,118
– settlement accounts	40,092	12,127
– other trading assets	225,291	205,154

Financial investments	441,399	428,955
Cash and balances with central banks	128,272	98,934
Net deployment in other balance sheet assets and liabilities	83,688	90,590
	2,151,540	2,048,326

Market risk

Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce our income or the value of our portfolios.

There were no material changes to the policies and practices for the management of market risk described in the Annual Report and Accounts 2015.

A summary of our market risk management framework including current policies is provided on page 221 of the Annual Report and Accounts 2015.

Market risk in the first half of 2016

Global markets were influenced by the change in outlook for future rate rises in the US. Yields in major economies fell, with the stock of government debt trading at negative yields increasing substantially.

In China, concerns about a slowdown in the economy led to concerns about a further depreciation of the renminbi.

Towards the end of the reporting period, volatility increased substantially due to the referendum decision in the UK to leave the European Union.

Trading value at risk ('VaR'), before the effects of portfolio diversification benefits, increased. Overall, it decreased slightly to 30 June after including the effects of portfolio diversification benefits. Non-trading VaR increased slightly during 1H16.

Trading portfolios

Value at risk of the trading portfolios

Trading VaR predominantly resides within Global Markets. The VaR for trading activity at 30 June 2016 was slightly lower than at 31 December 2015 due primarily to declines in equity and credit spread trading VaR components largely offset by increases in interest rate and foreign exchange trading VaR components, and an increase in portfolio diversification benefits.

The Group trading VaR for the half-year is shown in the table on the next page.

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Risk (continued)

Trading VaR, 99% 1 day

	Foreign exchange and commodity \$m	Interest rate \$m	Equity \$m	Credit spread \$m	Portfolio diversification ₁₁ \$m	Total \$m
Half-year to 30 Jun 2016	10.9	41.8	18.3	9.0	(27.7	) 52.3
Average	11.0	40.2	23.2	17.5	(30.9	) 61.0
Maximum	16.9	49.2	32.4	28.1	—	91.5
Minimum	6.5	31.8	15.2	9.0	—	44.0
Half-year to 30 Jun 2015	11.6	48.5	17.9	14.9	(35.8	) 57.1
Average	15.3	49.9	20.5	16.3	(38.5	) 63.5
Maximum	22.0	57.0	29.0	21.8	—	77.9
Minimum	9.3	40.4	15.2	9.9	—	51.3
Half-year to 31 Dec 2015	8.0	34.9	21.4	13.9	(24.9	) 53.3
Average	14.1	42.2	18.6	15.0	(33.0	) 56.9
Maximum	25.4	51.9	23.8	23.3	—	67.7
Minimum	6.3	32.6	11.9	9.8	—	47.5

For footnote, see page 95.

The risk not in VaR ('RNIV') framework captures risks from exposures in the HSBC trading book which are not captured well by the VaR model. The VaR-based RNIVs are included within the metrics for each asset class and the previously reported 30 June 2015 balances were restated to reflect this. The total trading VaR did not change whereas the individual VaR components and portfolio diversification did as the VaR-based RNIVs were added to each asset class.

Backtesting

There were two backtesting exceptions against hypothetical profit and loss for the Group in 1H16: a loss exception in February, driven by Libor against overnight index spread widening on long positions; and a profit exception in June, driven by significant devaluations in sterling and the euro against the US dollar resulting from the UK's referendum on EU membership.

Non-trading portfolios

Value at risk of the non-trading portfolios

Non-trading VaR of the Group includes contributions from all global businesses. There is no commodity risk in the non-trading portfolios. The VaR for non-trading activity at 30 June 2016 was slightly higher than at 31 December 2015 driven by an increase in non-trading interest rate VaR component and a decrease in diversification benefit, largely offset by a decrease in non-trading credit spread VaR component.

Non-trading VaR also includes the interest rate risk of non-trading financial instruments held in portfolios managed by Balance Sheet Management ('BSM'). The management of interest rate risk in the banking book is described further in 'Non-trading interest rate risk' below, including the role of BSM.

Non-trading VaR excludes the insurance operations which are discussed further on page 92.

The Group non-trading VaR for the half-year is shown in the table below.

Non-trading VaR, 99% 1 day

Interest	Credit	Portfolio diversification ₁₁	Total
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	rate \$m	spread \$m	\$m	\$m
Half-year to 30 Jun 2016	123.6	43.7	(29.6) 137.7
Average	125.1	59.0	(42.6) 141.5
Maximum	140.1	82.8	—	164.8
Minimum	100.2	43.7	—	123.3
Half-year to 30 Jun 2015	106.4	66.7	(45.3	) 127.8
Average	86.6	61.7	(33.6	) 114.7
Maximum	112.6	71.9	—	128.1
Minimum	70.5	54.3	—	91.5
Half-year to 31 Dec 2015	114.1	72.7	(54.0	) 132.8
Average	107.8	69.7	(50.1	) 127.4
Maximum	131.5	89.4	—	156.8
Minimum	89.6	52.1	—	103.5

For footnote, see page 95.

Non-trading VaR excludes equity risk on available-for-sale securities, structural foreign exchange risk and interest rate risk on fixed-rate securities issued by HSBC Holdings.

This section and the sections below describe the scope of HSBC's management of market risks in non-trading books.

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Interest rate risk in the banking book

Our policies regarding the management of interest rate risk in the banking book and the funds transfer pricing process are described on pages 215 and 207, respectively, of the Annual Report and Accounts 2015.

The component of the interest rate risk in the banking book outside of Balance Sheet Management or Global Markets that can be economically neutralised by fixed-rate government bonds or interest rate derivatives is transfer-priced to and managed by Balance Sheet Management. The banking book interest rate risk transferred to Balance Sheet Management is reflected in the Group's non-traded VaR measure.

The Group utilises sensitivity of net interest income to assess the overall level of interest rate risk in the banking book. This measure reflects both the structural banking book interest rate risk remaining after risk transfer to Balance Sheet Management and the banking book interest rate risk managed by Balance Sheet Management and Global Markets.

Third-party assets in Balance Sheet Management

Third-party assets in BSM increased by 12% during the first half of 2016. The movement in cash and balances at central banks, reverse repurchase agreements and financial investments were driven by Europe and America where increased commercial surplus funds were deployed into these assets.

Third-party assets in Balance Sheet Management

	At	
	30 Jun	31 Dec
	2016	2015
	\$m	\$m
Cash and balances at central banks	96,261	71,116
Trading assets	2,159	639
Loans and advances		
– to banks	40,461	42,059
– to customers	2,958	2,773
Reverse repurchase agreements	46,235	29,760
Financial investments	350,438	335,543
Other	4,095	4,277
	542,607	486,167

Sensitivity of net interest income

The table below sets out the effect on our future net interest income ('NII') of an incremental 25 basis points parallel rise or fall in all yield curves worldwide at the beginning of each quarter during the 12 months from 1 July 2016.

The sensitivities shown represent the change in the base case projected NII that would be expected under the two rate scenarios assuming that all other non-interest rate risk variables remain constant, and there are no management actions. In deriving our base case net interest income projections, the repricing rate of assets and liabilities used is derived from current yield curves. The interest rate sensitivities are indicative and based on simplified scenarios.

Assuming no management response, a sequence of such rises ('up-shock scenario') would increase planned net interest income for the 12 months to 30 June 2017 by \$1,373m (to 31 December 2016: \$1,252m), while a sequence of such falls ('down-shock scenario') would decrease planned net interest income by \$2,201m (to 31 December 2016: \$2,258m).

The NII sensitivity of the Group can be split into three key components: the structural sensitivity arising from the four global businesses excluding BSM and Global Markets, the sensitivity of the funding of the trading book (Global Markets) and the sensitivity of BSM.

The structural sensitivity is positive in a rising rate environment and negative in a falling rate environment. The sensitivity of the funding of the trading book is negative in a rising rate environment and positive in a falling rate environment. The sensitivity of BSM depends on its position. Typically, assuming no management response, the sensitivity of BSM is negative in a rising rate environment and positive in a falling rate environment.

The NII sensitivity figures below also incorporate the effect of any interest rate behaviouralisation applied and the effect of any assumed repricing across products under the specific interest rate scenario. They do not incorporate the effect of any management decision to change the composition of HSBC's balance sheet.

The NII sensitivity in BSM arises from a combination of the techniques that BSM uses to mitigate the transferred interest rate risk and the methods it uses to optimise net revenues in line with its defined risk mandate. The figures in the table below do not incorporate the effect of any management decisions within BSM, but in reality it is likely that there would be some short-term adjustment in BSM positioning to offset the NII effects of the specific interest rate scenario where necessary.

The NII sensitivity arising from the funding of the trading book comprises the expense of funding trading assets, while the revenue from these trading assets is reported in net trading income. This leads to an asymmetry in the NII sensitivity figures which is cancelled out in our global business results, where we include both NII and net trading income. It is likely, therefore, that the overall effect on profit before tax of the funding of the trading book will be much less pronounced than is shown in the figures below.

The scenario sensitivities remained broadly unchanged in 1H16.

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Risk (continued)

Sensitivity of projected net interest income

	US dollar bloc \$m	Rest of Americas bloc \$m	Hong Kong dollar bloc \$m	Rest of Asia bloc \$m	Sterling bloc \$m	Euro bloc \$m	Total \$m
Change in Jul 2016 to Jun 2017 projected net interest income arising from a shift in yield curves at the beginning of each quarter of:							
+ 25 basis points	496	57	615	2	82	121	1,373
- 25 basis points	(779)	(62)	(817)	(79)	(442)	(22)	(2,201)
Change in Jan 2016 to Dec 2016 projected net interest income arising from a shift in yield curves at the beginning of each quarter of:							
+ 25 basis points	410	72	217	369	135	49	1,252
- 25 basis points	(691)	(74)	(645)	(290)	(528)	(30)	(2,258)
Change in Jul 2015 to Jun 2016 projected net interest income arising from a shift in yield curves at the beginning of each quarter of:							
+ 25 basis points	347	5	307	297	174	(103)	1,027
- 25 basis points	(470)	(22)	(580)	(246)	(565)	(22)	(1,905)

Sensitivity of capital and reserves

Available-for-sale ('AFS') reserves are included as part of CET1 capital. We measure the potential downside risk to the CET1 ratio due to interest rate and credit spread risk in the AFS portfolio by the portfolio's stressed VaR, using a 99% confidence level and an assumed holding period of one quarter. At June 2016, the stressed VaR of the portfolio was \$2.9bn.

We monitor the sensitivity of reported cash flow hedging reserves to interest rate movements on a monthly basis by

assessing the expected reduction in valuation of cash flow hedges due to parallel movements of plus or minus 100bps in all yield curves. These particular exposures form only a part of our overall interest rate exposures.

The table below describes the sensitivity of our cash flow hedge reported reserves to the stipulated movements in yield curves and the maximum and minimum month-end figures during the year. The sensitivities are indicative and based on simplified scenarios.

Sensitivity of cash flow hedging reported reserves to interest rate movements

	Impact in the preceding 6 months	
	Maximum	Minimum
	\$m	\$m
At 30 Jun 2016		
+ 100 basis point parallel move in all yield curves	(1,173)	(1,173)

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As a percentage of total shareholders' equity	(0.6	%)	(0.6	%)	(0.6	%)
– 100 basis point parallel move in all yield curves	1,145	45			1,224	
As a percentage of total shareholders' equity	0.6	%	0.6	%	0.6	%
At 30 Jun 2015						
+ 100 basis point parallel move in all yield curves	(1,137)	(1,259	)	(1,137)	
As a percentage of total shareholders' equity	(0.6	%)	(0.7	%)	(0.6	%)
– 100 basis point parallel move in all yield curves	1,149	1,226			1,149	
As a percentage of total shareholders' equity	0.6	%	0.6	%	0.6	%
At 31 Dec 2015						
+ 100 basis point parallel move in all yield curves	(1,235)	(1,259	)	(1,137)	
As a percentage of total shareholders' equity	(0.7	%)	(0.7	%)	(0.6	%)
– 100 basis point parallel move in all yield curves	1,224	1,232			1,133	
As a percentage of total shareholders' equity	0.7	%	0.7	%	0.6	%

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Additional market risk measures applicable only to the parent company

The principal tools used in the management of market risk are VaR for foreign exchange rate risk and the projected sensitivity of HSBC Holdings' NII to future changes in yield curves and interest rate gap repricing for interest rate risk.

Foreign exchange risk

Total foreign exchange VaR arising within HSBC Holdings in the first half of 2016 was as follows:

HSBC Holdings – foreign exchange VaR

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	\$m	\$m	\$m
At period-end	56.3	47.1	45.6
Average	49.2	38.0	45.7
Maximum	58.2	47.1	46.8
Minimum	44.6	32.9	44.1

The foreign exchange risk largely arises from loans to subsidiaries of a capital nature that are not denominated in the functional currency of either the provider or the recipient and which are accounted for as financial assets. Changes in the carrying amount of these loans due to foreign exchange rate differences are taken directly to HSBC Holdings' income statement. These loans, and most of the associated foreign exchange exposures, are eliminated on consolidation.

Interest rate repricing gap table

The interest rate risk on the fixed-rate securities issued by HSBC Holdings is not included within the Group VaR but is managed on a repricing gap basis. The interest rate repricing gap table below analyses the full-term structure of interest rate mismatches within HSBC Holdings' balance sheet.

Repricing gap analysis of HSBC Holdings

	Total	Up to 1 year	1 to 5 years	5 to 10 years	More than 10 years	Non-interest bearing
	\$m	\$m	\$m	\$m	\$m	\$m
Total assets	166,646	61,048	842	684	—	104,072
Total liabilities and equity	(166,646)	(3,804)	(14,601)	(18,664)	(16,325)	(113,252)
Off-balance sheet items attracting interest rate sensitivity	—	(38,393)	13,989	16,123	8,281	—
Net interest rate risk gap at 30 Jun 2016	—	18,851	230	(1,857)	(8,044)	(9,180)
Cumulative interest rate risk gap	—	18,851	19,081	17,224	9,180	—
Total assets	148,926	46,084	402	2,144	—	100,296
Total liabilities and equity	(148,926)	(2,345)	(6,850)	(10,104)	(14,507)	(115,120)
Off-balance sheet items attracting interest rate sensitivity	—	(21,248)	5,351	9,222	5,763	912
Net interest rate risk gap at 30 Jun 2015	—	22,491	(1,097)	1,262	(8,744)	(13,912)
Cumulative interest rate risk gap	—	22,491	21,394	22,656	13,912	—

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Total assets	150,194	45,888	388	1,136	—	102,782
Total liabilities and equity	(150,194)	(2,522)	(6,613)	(11,495)	(13,332)	(116,232)
Off-balance sheet items attracting interest rate sensitivity	—	(22,748)	5,351	10,722	5,763	912
Net interest rate risk gap at 31 Dec 2015	—	20,618	(874)	363	(7,569)	(12,538)
Cumulative interest rate risk gap	—	20,618	19,744	20,107	12,538	—

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Risk (continued)

Operational risk

Operational risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people or systems, or external events.

There were no material changes to the policies and practices for the management of operational risk described in the Annual Report and Accounts 2015.

Activity to further enhance and embed our operational risk management framework ('ORMF') continued in 1H16. Responsibility for minimising operational risk lies with HSBC's management and staff. All regional, global business, country, and functional staff are required to manage the operational risks of the business and activities for which they are responsible.

A diagrammatic representation of our ORMF is provided on page 176 of the Annual Report and Accounts 2015.

A summary of our current policies and practices regarding operational risk is provided in the Appendix to Risk on page 217 of the Annual Report and Accounts 2015 Appendix to Risk.

Operational risk profile in the first half of 2016

During 1H16, our operational risk profile continued to be driven mainly by compliance risks and we continued to see operational risk losses that relate to events from prior years (significant events are outlined in Notes 16 and 19 on the Financial Statements). A number of mitigating actions are being undertaken to prevent future conduct-related incidents.

Operational risk areas include:

Compliance with regulatory agreements and consent orders: Breach of the US deferred prosecution agreement ('DPA') may allow US authorities to prosecute HSBC with respect to matters covered thereunder. The work of the Monitor is discussed on page 66, and compliance risk is described below.

Fraud risks: Losses continue to be at acceptable levels in most markets, but the introduction of new technologies and ways of banking mean we are subject to new types of fraud attacks. We have increased monitoring and enhanced detective controls to help mitigate these risks in accordance with our risk appetite.

Information security risk: Like other banks, we face numerous cyber threats. These include denial of service attacks, in which hackers try to prevent our customers accessing our services online. We continue to strengthen internal security controls to prevent unauthorised access to our systems and network, and improve the controls and security to protect customers using digital channels. Strong engagement with our industry, government agencies and intelligence providers helps ensure we keep abreast of developments.

Third-party risk management: HSBC is implementing a multi-year strategic plan to enhance its third-party risk management capability. We have defined a framework to provide a holistic view of third-party risks which will help enable the consistent risk assessment of any third-party service. Third-party engagement will be assessed against key criteria, combined with the associated control monitoring, testing and assurance throughout the relationship lifecycle.

Other operational risks are also monitored and managed through the use of the ORMF and governing policies.

Compliance risk

Compliance risk arises from activities subject to rules, regulations, Group policies and other formal standards relating to anti-money laundering ('AML'), counter-terrorist and proliferation financing, sanctions compliance, anti-bribery and corruption, conduct of business and other regulations.

A summary of our current policies and practices regarding compliance risk is provided on pages 217 and 218 of the Annual Report and Accounts 2015.

AML and sanctions

In 1H16, we continued to embed the procedures required to effect the AML and sanctions policies in our day-to-day business operations globally. This supports our ongoing effort to address the US DPA requirements. These actions are in line with our strategic target to implement the highest or most effective standards globally. The work of the Monitor, who was appointed to assess the effectiveness of our AML and sanctions compliance programme, is discussed on page 66.

Anti-bribery and corruption

We have introduced a strategic programme to address bribery and corruption risks. We are also embedding an enhanced global suite of policies to make clear to staff that employees or other associated persons or entities must not engage in or facilitate any form of bribery, directly or indirectly.

The anti-bribery and corruption programme emphasises the importance of consistent procedures to drive 'detect, deter and protect' principles, and help ensure they are incorporated into every aspect of our activities.

Conduct of business

We continue to recognise that delivering fair outcomes for our customers and upholding financial market integrity are critical to a sustainable business model. The global businesses are refining the range of measures, appropriate to their specific customer bases and markets, used to assess the ongoing effectiveness of the management of conduct, and enable action to be taken where potential conduct issues arise. The measures include information relating to the products we sell, sales quality, customer experience and market behaviour. Oversight of the management of conduct is being embedded within country, regional and global governance structures.

We continue to take steps to raise our standards of conduct. In 1H16, these included:

- the launch of a new global mandatory training module, Embedding Good Conduct, building on training launched in 2015, to help ensure employees have a strong understanding of conduct and how it applies to them, and understand good conduct behaviours;

- enhanced values and behaviours-based components within employee recruitment and performance management processes;

- continued focus on improving the identification and treatment of potentially vulnerable customers;

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- a review to further enhance delivery of products and services through digital channels;
- continued enhancement of, and investment in, our surveillance capabilities and the use of new technologies to strengthen our ability to detect suspicious trading activity and misconduct; and
- development of a conduct maturity model to assess the effectiveness of improvements we are making to customer outcomes and our financial markets activities.

Whistleblowing

We actively encourage our employees to raise concerns and escalate issues so they can be dealt with effectively. In most cases, individuals will raise their concerns with line management or Global Human Resources. However, where an individual believes that their normal reporting channels are unavailable or inappropriate, it is important that they have alternative channels available to them to raise concerns confidentially without fear of personal repercussions. This is referred to as 'whistleblowing'.

We operate a global whistleblowing platform, HSBC Confidential, which can be accessed by telephone, email, web and mail. We also maintain an external email address for concerns about accounting and internal financial controls or auditing matters (accountingdisclosures@hsbc.com). Matters raised are independently investigated by appropriate subject matter teams and details of investigations and outcomes including remedial action taken are reported to the Conduct & Values Committee. Matters raised in respect of audit, accounting and internal control over financial reporting are reported to the Group Audit Committee.

Reputational risk

Reputational risk is the risk of failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC itself, our employees or those with whom we are associated, that might cause stakeholders to form a negative view of the Group. This may have financial or non-financial effects, resulting in a loss of confidence or have other consequences.

The Global Head of Financial Crime Compliance and the Global Head of Regulatory Compliance are the risk stewards for reputational risk. The Reputational Risk and Client Selection sub-function is responsible for: setting policies to guide the Group's management of reputational risk; devising strategies to protect against reputational risk; and advising the global businesses and global functions to help them identify, assess and mitigate such risks where possible. For further details on the reputational risk policies and practices, see page 224 of the Annual Report and Accounts 2015.

We have zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and appropriately mitigated. There must be no barriers to open discussion and the escalation of issues that could affect the Group negatively. While there is a level of risk in every aspect of business activity, appropriate consideration of potential harm to HSBC's good name must be a part of all business decisions.

We continue to take steps to address the requirements of the US DPA and to enhance our AML, sanctions and other regulatory compliance frameworks. These measures should also serve over time to enhance our reputational risk management.

Risk management of insurance operations

The majority of the risks in our insurance business derive from manufacturing activities and can be categorised as financial risk and insurance risk. Financial risks include market risk, credit risk and liquidity risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the issuer (HSBC).

There have been no material changes to the policies and practices for the management of risks arising in our insurance operations described in the Annual Report and Accounts 2015.

A summary of our policies and practices regarding the risk management of insurance operations, our insurance model and the main contracts we manufacture are provided on page 180 of the Annual Report and Accounts 2015.

Risk management of insurance manufacturing operations in the first half of 2016

We measure the risk profile of our insurance manufacturing businesses using an economic capital approach where assets and liabilities are measured on a market value basis. On this basis, there is a minimum economic capital requirement to ensure that there is a less than one in 200 chance of insolvency, given the risks the businesses are exposed to over the next year. The methodology for the economic capital calculation is largely aligned to the new pan-European Solvency II insurance capital regulations.

The sale of our Brazilian insurance operations completed on 1 July 2016. These operations are reported as part of the disposal group held for sale at 30 June 2016 and 31 December 2015.

The risk profile of our remaining life insurance manufacturing businesses did not change materially during 1H16. The increase in policyholder liabilities during the period to \$79.4bn (31 December 2015: \$76.0bn) is primarily a result of new premiums collected.

Asset and liability matching

A principal tool used to manage exposures to both financial and insurance risk, in particular for life insurance contracts, is asset and liability matching. In many markets in which we operate it is neither possible nor appropriate to follow a perfect asset and liability matching strategy. For long-dated non-linked contracts, in particular, this results in a duration mismatch between assets and liabilities. Portfolios are structured to support these projected liabilities, with limits set to control the duration mismatch.

The table on the next page shows the composition of assets and liabilities by contract type and demonstrates that there were sufficient assets to cover the liabilities to policyholders, in each case at 30 June 2016.

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Risk (continued)

Balance sheet of insurance manufacturing subsidiaries by type of contract

	Footnotes	Insurance contracts				Investment contracts				Total
		With DPF	Unit-linked	Annuities	Other ¹²	With DPF ¹³	Unit-linked	Other	Other assets and liabilities ¹⁴	
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Financial assets		33,713	6,560	1,126	7,758	22,576	2,196	3,982	5,111	83,022
– trading assets		—	—	2	—	—	—	—	—	2
– financial assets designated at fair value		4,958	6,434	310	576	6,481	1,982	1,904	671	23,316
– derivatives		107	—	—	5	147	1	38	65	363
– financial investments – HTM	15	24,308	—	436	2,936	—	—	1,378	2,881	31,939
– financial investments – AFS	15	1,867	—	325	4,081	13,984	—	22	1,379	21,658
– other financial assets	16	2,473	126	53	160	1,964	213	640	115	5,744
Reinsurance assets		419	313	—	1,004	—	—	—	—	1,736
PVIF	17	—	—	—	—	—	—	—	6,036	6,036
Other assets and investment properties		890	1	21	104	864	11	22	5,777	7,690
Total assets at 30 Jun 2016		35,022	6,874	1,147	8,866	23,440	2,207	4,004	16,924	98,484
Liabilities under investment contracts:		—	—	—	—	—	2,185	3,806	—	5,991
– designated at fair value		—	—	—	—	—	2,185	3,806	—	5,991
Liabilities under insurance contracts		34,217	6,846	1,067	7,912	23,374	—	—	—	73,416
Deferred tax	18	12	—	—	35	—	—	—	1,128	1,175
Other liabilities		—	—	—	173	—	—	—	6,420	6,593
Total liabilities		34,229	6,846	1,067	8,120	23,374	2,185	3,806	7,548	87,175
Total equity		—	—	—	—	—	—	—	11,309	11,309
Total equities and liabilities at 30 Jun 2016	19	34,229	6,846	1,067	8,120	23,374	2,185	3,806	18,857	98,484

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	Footnotes	Insurance contracts				Investment contracts			Other assets and liabilities ¹⁴	Total
		With DPF	Unit-linked	Annuities	Other ¹²	With DPF ¹³	Unit-linked	Other		
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Financial assets		31,801	6,569	1,138	6,618	21,270	2,271	3,935	5,531	79,583
– trading assets		—	—	2	—	—	—	—	—	2
– financial assets designated at fair value		4,698	6,435	296	563	6,421	2,000	1,859	1,015	23,287
– derivatives		49	—	—	4	111	1	29	62	256
– financial investments	15	22,840	—	468	2,334	—	—	1,387	3,050	30,079
– HTM										
– financial investments – AFS ¹⁵		1,743	—	312	3,685	13,334	—	23	1,233	20,330
– other financial assets	16	2,471	134	60	32	1,854	270	637	171	5,629
Reinsurance assets		202	264	—	951	—	—	—	—	1,417
PVIF	17	—	—	—	—	—	—	—	5,685	5,685
Other assets and investment properties		838	1	11	105	888	6	23	4,576	6,448
Total assets at 31 Dec 2015		32,841	6,834	1,149	7,674	22,608	2,277	3,958	15,792	93,133
Liabilities under investment contracts:		—	—	—	—	—	2,256	3,771	—	6,027
– designated at fair value		—	—	—	—	—	2,256	3,771	—	6,027
Liabilities under insurance contracts:		32,414	6,791	1,082	7,042	22,609	—	—	—	69,938
Deferred tax	18	11	—	11	3	—	—	—	1,056	1,081
Other liabilities		—	—	—	—	—	—	—	5,553	5,553
Total liabilities		32,425	6,791	1,093	7,045	22,609	2,256	3,771	6,609	82,599
Total equity		—	—	—	—	—	—	—	10,534	10,534
Total equity and liabilities at 31 Dec 2015	19	32,425	6,791	1,093	7,045	22,609	2,256	3,771	17,143	93,133

For footnotes, see page 95.

Insurance risk

A principal risk we face is that, over time, the cost of the contract, including claims and benefits, may exceed the total amount of premiums and investment income received. In

respect of insurance risk, the cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, and lapse and surrender rates.

Risk (continued)

Footnotes to Risk

Credit risk

1 The amount of loan commitments reflects, where relevant, the expected level of take-up of pre-approved loan offers made by mailshots to personal customers. In addition to those amounts, there is a further maximum possible exposure to credit risk of \$49bn (31 December 2015: \$59bn), reflecting the full take-up of loan commitments. The take-up of such offers is generally at low levels.

2 'Other commercial loans and advances' includes advances in respect of agriculture, transport, energy utilities and ABSs reclassified to 'Loans and advances'.

3 'Loans and advances to customers' includes asset-backed securities that have been externally rated as strong (30 June 2016: \$392m; 31 December 2015: \$504bn), good (30 June 2016: \$65m; 31 December 2015: \$95m), satisfactory (30 June 2016: \$99m; 31 December 2015: \$107m), sub-standard (30 June 2016: \$19m; 31 December 2015: \$19m) and impaired (30 June 2016: \$64m; 31 December 2015: \$73m).

4 Corporate and commercial includes commercial real estate renegotiated loans of \$1,870m (31 December 2015: \$2,134m) of which \$442m (31 December 2015: \$477m) were neither past due nor impaired, \$19m (31 December 2015: \$1m) were past due but not impaired and \$1,409m (31 December 2015: \$1,656m) were impaired.

5 Included within 'Exchange and other movements' is \$1.1bn of impairment allowances reclassified to held for sale (31 December 2015: \$2.1bn).

6 The charge for impairment losses as a percentage of average gross loans and advances to customers includes Brazil, which was classified as held for sale in 1H15.

7 'Currency translation adjustment' is the effect of translating the results of subsidiaries and associates for the previous period at the average rates of exchange applicable in the current period.

Liquidity and funding

8 The HSBC UK Liquidity Group shown comprises four legal entities; HSBC Bank plc (including all overseas branches, and SPEs consolidated by HSBC Bank plc for Financial Statement purposes), Marks and Spencer Financial Services plc, HSBC Private Bank (UK) Ltd and HSBC Trust Company (UK) Limited, managed as a single operating entity, in line with the application of UK liquidity regulation as agreed with the UK PRA.

9 The Hongkong and Shanghai Banking Corporation – Hong Kong branch and The Hongkong and Shanghai Banking Corporation – Singapore branch represent the material activities of The Hongkong and Shanghai Banking Corporation. Each branch is monitored and controlled for liquidity and funding risk purposes as a stand-alone operating entity.

10 The total shown for other principal HSBC operating entities represents the combined position of all the other operating entities overseen directly by the Risk Management Meeting of the Group Management Board.

Market risk

11 When VaR is calculated at a portfolio level, natural offsets in risk can occur when compared to aggregating VaR at the asset class level. This difference is called portfolio diversification. The asset class VaR maxima and minima reported in the table occurred on different dates within the reporting period. For this reason, we do not report an implied portfolio diversification measure between the maximum (minimum) asset class VaR measures and the maximum (minimum) Total VaR measures in this table.

Risk management of insurance operations

12 'Other' includes term assurance, credit life insurance, universal life insurance and remaining non-life insurance.

13 Although investment contracts with discretionary participation features ('DPF') are financial investments, HSBC continues to account for them as insurance contracts as required by IFRS 4.

14 'Other assets and liabilities' shows shareholder assets as well as assets and liabilities classified as held for sale. The majority of the assets for insurance businesses classified as held for sale are reported as 'Other assets and investment properties' and totalled \$5.3bn at 30 June 2016 (31 December 2015: \$4.1bn). The majority of these assets at 30 June 2016 were debt and equity securities and PVIF. All liabilities for insurance businesses classified as held for sale are reported in 'Other liabilities' and totalled \$4.8bn at 30 June 2016 (31 December 2015: \$3.7bn). The majority of these liabilities at 30 June 2016 were liabilities under insurance contracts and liabilities under investment contracts.

15 Financial investments held to maturity ('HTM') and available for sale ('AFS').

16 Comprises mainly loans and advances to banks, cash and intercompany balances with other non-insurance legal entities.

17 Present value of in-force long-term insurance contracts and investment contracts with DPF.

18 'Deferred tax' includes the deferred tax liabilities arising on recognition of PVIF.

19 Does not include associated insurance company SABB Takaful Company or joint venture insurance company Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited.

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Capital

Capital

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Our objective in managing Group capital is to maintain appropriate levels of capital to support our business strategy and meet regulatory and stress testing related requirements.

Capital highlights

- Our common equity tier 1 ('CET1') ratio of 12.1% was up from 11.9% at the end of 2015.
- Our CET1 ratio¹ strengthened as we continued to generate capital from profit and implement our RWA initiatives, creating capacity for growth.
- Our leverage ratio remained strong at 5.1%.

We manage Group capital to ensure we exceed current regulatory requirements and respect the payment priority of our capital providers. Throughout 1H16, we complied with the UK Prudential Regulation Authority's ('PRA') regulatory capital adequacy requirements, including those relating to stress testing. We are well placed to meet our expected future capital requirements.

We continue to manage Group capital to meet a target for return on equity of more than 10%. This is modelled on a CET1 ratio (on an end point basis) in the range of 12% to 13%, which takes into account known and quantifiable end point CET1 requirements including a regulatory and management buffer of 1.0% to 2.0%. This buffer is based on our estimate of the additional CET1 we will need to hold to cover the new time-varying buffers and other factors. It will be kept under review as clarity in respect of future regulatory developments improves.

A summary of our policies and practices regarding capital management, measurement and allocation is provided on page 243 of the Annual Report and Accounts 2015.

Our CET1 capital decreased in 1H16 by \$0.2bn to \$130.7bn. We generated \$1.5bn of capital through profits net of dividends and scrip, offset by foreign currency differences of \$2.3bn.

Capital overview

Capital ratios

	At	
	30 Jun	31 Dec
	2016	2015
Footnotes	%	%

Transitional basis

Common equity tier 1 ratio	1	12.1	11.9
Tier 1 ratio		14.1	13.9
Total capital ratio		17.3	17.2

For footnote, see page 108.

Total regulatory capital and risk-weighted assets

	At	
	30 Jun	31 Dec
	2016	2015

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	Footnotes	\$m	\$m
Transitional basis			
Common equity tier 1 capital	1	130,670	130,863
Additional tier 1 capital		21,642	22,440
Tier 2 capital		34,481	36,530
Total regulatory capital		186,793	189,833
Risk-weighted assets		1,082,184	1,102,995
For footnote, see page 108.			
RWAs by risk type			
	RWAs	Capital required ₂	
	\$bn	\$bn	
Credit risk	851.3	68.1	
Counterparty credit risk	73.7	5.9	
Market risk	41.8	3.3	
Operational risk	115.4	9.2	
At 30 Jun 2016	1,082.2	86.5	
For footnote, see page 108.			
Leverage ratio			
	At		
	30 Jun	31 Dec	
	2016	2015	
	\$bn	\$bn	
Leverage ratio exposure	2,788	2,794	
Tier 1 capital (end point)	142	140	
Leverage ratio	5.1	% 5.0	%
Quarterly average:			
Leverage ratio exposure	2,819		
Leverage ratio	5.1	%	

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Capital (continued)

Risk-weighted assets

RWA movement by geographical region by key driver

	Credit risk, counterparty credit risk and operational risk							Total RWAs \$bn
	Europe \$bn	Asia \$bn	MENA \$bn	North America \$bn	Latin America \$bn	Market risk \$bn		
RWAs at 1 Jan 2016	306.4	437.8	59.4	185.0	71.9	42.5	1,103.0	
RWA movements								
RWA initiatives	(15.8)	(5.0)	(1.1)	(25.1)	—	(1.3)	(48.3)	
Foreign exchange movement	(13.0)	(1.7)	(1.0)	1.8	4.6	—	(9.3)	
Book size	3 14.6	(1.7)	0.5	4.2	0.5	0.6	18.7	
Book quality	4.5	6.9	0.8	2.7	(0.1)	—	14.8	
Model updates	0.3	—	—	(1.3)	—	—	(1.0)	
– portfolios moving onto IRB approach	(0.1)	—	—	—	—	—	(0.1)	
– new/updated models	0.4	—	—	(1.3)	—	—	(0.9)	
Methodology and policy	2.4	1.3	—	0.1	0.5	—	4.3	
– internal updates	2.4	—	—	0.1	0.5	—	3.0	
– external updates – regulatory	—	1.3	—	—	—	—	1.3	
Total RWA movement	(7.0)	(0.2)	(0.8)	(17.6)	5.5	(0.7)	(20.8)	
RWAs at 30 Jun 2016	299.4	437.6	58.6	167.4	77.4	41.8	1,082.2	

For footnote, see page 108.

RWA movement by global businesses by key driver

	Credit risk, counterparty credit risk and operational risk								
	Principal RBWM \$bn	US run-off portfolio \$bn	Total RBWM \$bn	CMB \$bn	GB&M \$bn	GPB \$bn	Other \$bn	Market risk \$bn	Total RWAs \$bn
RWAs at 1 Jan 2016	150.1	39.5	189.6	421.0	398.4	19.3	32.2	42.5	1,103.0
RWA movements									
RWA initiatives	(0.1)	(12.3)	(12.4)	(11.3)	(23.3)	—	—	(1.3)	(48.3)
Foreign exchange movement	(0.5)	—	(0.5)	(5.6)	(2.7)	(0.2)	(0.3)	—	(9.3)
Book size	3 0.7	—	0.7	3.5	12.2	(0.7)	2.4	0.6	18.7
Book quality	(0.9)	—	(0.9)	5.9	9.5	0.1	0.2	—	14.8
Model updates	(0.9)	—	(0.9)	—	(0.1)	—	—	—	(1.0)
– portfolios moving onto IRB approach	—	—	—	—	(0.1)	—	—	—	(0.1)
– new/updated models	(0.9)	—	(0.9)	—	—	—	—	—	(0.9)
	0.5	—	0.5	1.3	1.6	—	0.9	—	4.3

Methodology and policy

– internal updates	(0.8	)	—	(0.8	)	1.3	1.6	—	0.9	—	3.0				
– external updates – regulatory	1.3		—	1.3		—	—	—	—	—	1.3						
Total RWA movement	(1.2)	(12.3)	(13.5)	(6.2)	(2.8)	(0.8)	3.2	(0.7)	(20.8)

RWAs at 30 Jun 2016 148.9 27.2 176.1 414.8 395.6 18.5 35.4 41.8 1,082.2

For footnote, see page 108.

RWAs decreased in 1H16 by \$20.8bn, of which \$9.3bn was due to foreign currency translation differences. The decrease was primarily from RWA initiatives reducing RWAs by \$48.3bn, partly offset by book size movements of \$18.7bn, and a deterioration of credit quality and risk parameter movements that increased RWAs by \$14.8bn.

Comments below describe RWA movements excluding foreign currency translation differences.

RWA initiatives

The main drivers of these reductions were:

\$19.3bn through the continued reduction in GB&M legacy credit and US run-off portfolios; and

\$29.0bn as a result of reduced exposures, refined calculations and process improvements.

Book size

Book size movements were principally from:

higher corporate lending in GB&M and CMB in Europe, Middle East and North Africa, and North America increasing RWAs by \$7.1bn; and

increased trade volumes and mark-to-market movements on derivatives and securities financing transactions increasing counterparty credit risk ('CCR') by \$9.4bn.

Book quality

The main drivers for book quality movements were:

corporate and institution downgrades and changes in credit quality mix in Asia, North America and Europe, increasing RWAs by \$14.6bn; and

the downgrade of Brazil's and Egypt's internal credit rating, increasing RWAs by \$2.0bn; partly offset by the upgrade of Argentina's sovereign rating, decreasing RWAs by \$0.8bn.

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Capital

Source and application of total regulatory capital

		Half-year to 30 Jun 2016	
	Footnotes	\$m	
Movement in total regulatory capital			
Opening common equity tier 1 capital	1	130,863	
Contribution to common equity tier 1 capital from profit for the period		5,388	
– consolidated profits attributable to shareholders of the parent company		6,912	
– removal of own credit spread net of tax		(1,094)
– debit valuation adjustment		(103)
– deconsolidation of insurance entities and special purpose entities		(327)
Net dividends including foreseeable net dividends	4	(3,853)
– update for actual dividends and scrip take-up		(413)
– first interim dividend net of scrip take-up		(1,433)
– second interim dividend net of planned scrip		(2,007)
Goodwill and intangible assets		786	
Ordinary shares issued		8	
Foreign currency translation differences		(2,333)
Other, including regulatory adjustments		(189)
Closing common equity tier 1 capital	1	130,670	
Opening additional tier 1 capital on a transitional basis		22,440	
Movement in additional tier 1 securities		(205)
– new issuance net of redemptions		(680)
– grandfathering adjustments		574	
– foreign currency translation and other differences		(99)
Other, including regulatory adjustments		(593)
Closing tier 1 capital on a transitional basis		152,312	
Opening tier 2 capital on a transitional basis		36,530	
Movement in tier 2 securities		(2,020)
– new issuance net of redemptions		567	
– grandfathering adjustments		(2,284)
– foreign currency translation and other differences		(303)
Other, including regulatory adjustments		(29)
Closing total regulatory capital on a transitional basis		186,793	
For footnotes, see page 108.			

Leverage ratio

Summary reconciliation of accounting assets and leverage ratio exposures

Ref*

At
30 Jun
2016

	\$bn
1 Total assets as per published financial statements	2,608
Adjustments for:	
2 – entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	116
4 – derivative financial instruments	(236)
5 – securities financing transactions	9
6 – off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	302
7 – other	(11)
8 Total leverage ratio exposure	2,788

* The references identify the lines prescribed in the European Banking Authority ('EBA') template which are applicable and where there is a value.

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Capital (continued)

Leverage ratio common disclosure

	At 30 Jun 2016
Ref*	\$bn
On-balance sheet exposures (excluding derivatives and securities financing transactions ('SFT'))	
1 On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,161
2 (Asset amounts deducted in determining tier 1 capital)	(34)
3 Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	2,127
Derivative exposures	
4 Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	37
5 Add-on amounts for potential future exposures associated with all derivatives transactions (mark-to-market method)	120
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	5
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(43)
8 (Exempted CCP leg of client-cleared trade exposures)	(3)
9 Adjusted effective notional amount of written credit derivatives	238
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(217)
11 Total derivative exposures	137
Securities financing transaction exposures	
12 Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	291
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	(78)
14 Counterparty credit risk exposure for SFT assets	9
16 Total securities financing transaction exposures	222
Other off-balance sheet exposures	
17 Off-balance sheet exposures at gross notional amount	900
18 (Adjustments for conversion to credit equivalent amounts)	(598)
19 Total off-balance sheet exposures	302
Capital and total exposures	
20 Tier 1 capital	142

21	Total leverage ratio exposure	2,788	
22	Leverage ratio	5.1	%

EU-23 Choice on transitional arrangements for the definition of the capital measure Fully phased in

*The references identify the lines prescribed in the EBA template which are applicable and where there is a value.

Split of on-balance sheet exposures (excluding derivatives and SFTs)

Ref*		At 30 Jun 2016 \$bn
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures) of which:	2,161
EU-2	Trading book exposures	274
EU-3	Banking book exposures, of which:	1,887
EU-4	– covered bonds	1
EU-5	– exposures treated as sovereigns	568
EU-6	– exposures to regional governments, multilateral development banks ('MDB'), international organisations and public sector entities ('PSE') not treated as sovereigns	6
EU-7	– institutions	105
EU-8	– secured by mortgages of immovable properties	283
EU-9	– retail exposures	108
EU-10	– corporate	662
EU-11	– exposures in default	15
EU-12	– other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	139

*The references identify the lines prescribed in the EBA template which are applicable and where there is a value.

Our leverage ratio calculated on both the PRA and Capital Requirements Regulation ('CRR') bases was 5.1% at 30 June 2016. On the CRR basis, the leverage ratio was up from 5.0% at 31 December 2015 because of increased capital. The PRA basis was introduced on 1 January 2016.

At 30 June 2016, our PRA minimum leverage ratio requirement of 3% was supplemented with an additional leverage ratio buffer of 0.2% that translates to a value of \$6.1bn, and a countercyclical leverage ratio buffer which results in no capital impact. We comfortably exceeded these leverage requirements.

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The risk of excessive leverage is managed as part of HSBC's global risk appetite framework and monitored using a leverage ratio metric within our Risk Appetite Statement ('RAS'). The RAS articulates the aggregate level and types of risk that HSBC is willing to accept in its business activities in order to achieve its strategic business objectives. The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Group Risk Management Meeting of the Group Management Board and the Group Risk Committee. Our approach to risk appetite is described on page 102 of the Annual Report and Accounts 2015.

Regulatory disclosures

Regulatory developments

Throughout 1H16, there was a series of documents issued by the Basel Committee on Banking Supervision which proposed significant changes to the regulatory framework. The key publications proposed changes to:

- the framework for credit risk capital requirements under both the internal model and standardised approaches;
- the operational risk framework;
- the credit valuation adjustment capital framework;
- the scope of consolidation to include entities giving rise to 'step-in risk'; and
- the leverage ratio exposure calculation and buffers.

The final impact of these and other proposals will depend on the outcome of the consultation processes and quantitative impact studies, and any changes would need to be

transposed into law before coming into effect. This includes the finalised changes that relate to the market risk, counterparty risk and securitisation regimes. In the UK, the Bank of England's Financial Policy Committee ('FPC') has indicated that there will be an offset with the PRA's Pillar 2 capital framework as a result of these changes but the full scope and size of this offset is currently uncertain.

The FPC also, in July 2016, decided to keep the UK countercyclical capital buffer requirement at 0% until at least June 2017, having previously planned to raise it to 0.5% in March 2017. Furthermore, the FPC recommended that the PRA buffer requirements reduce in line with this decision. The PRA did this with immediate effect.

As part of Recovery and Resolution frameworks, the international standard for Total Loss Absorbing Capacity was finalised by the Financial Stability Board. The Bank of England expects to implement this through the EU's Minimum Requirements for own funds and Eligible Liabilities framework, which it has consulted on but has yet to finalise.

Risk-weighted assets

RWAs by geographical region

		Europe	Asia	MENA	North America	Latin America	Total
	Footnotes	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn
IRB approach		181.7	199.7	19.9	117.4	15.0	533.7
– IRB advanced approach		162.8	199.7	10.0	117.4	15.0	504.9
– IRB foundation approach		18.9	—	9.9	—	—	28.8
Standardised approach		46.1	175.1	31.1	20.0	45.3	317.6
Credit risk		227.8	374.8	51.0	137.4	60.3	851.3
Counterparty credit risk		36.7	15.7	1.4	15.9	4.0	73.7
Market risk	5	31.8	24.7	1.1	7.7	1.2	41.8
Operational risk		34.9	47.1	6.2	14.1	13.1	115.4
At 30 Jun 2016		331.2	462.3	59.7	175.1	78.6	1,082.2

For footnote, see page 108.

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Capital (continued)

RWAs by global business

	Principal RBWM	US run-off portfolio	Total RBWM	CMB	GB&M	GPB	Other	Total
Footnotes	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn
IRB approach	57.6	20.8	78.4	225.3	210.7	7.8	11.5	533.7
– IRB advanced approach	57.6	20.8	78.4	205.5	202.9	7.7	10.4	504.9
– IRB foundation approach	—	—	—	19.8	7.8	0.1	1.1	28.8
Standardised approach	57.9	4.0	61.9	158.5	66.8	7.1	23.3	317.6
Credit risk	115.5	24.8	140.3	383.8	277.5	14.9	34.8	851.3
Counterparty credit risk	—	—	—	—	72.9	0.3	0.5	73.7
Market risk	5	—	—	—	41.5	—	0.3	41.8
Operational risk	33.4	2.4	35.8	31.0	45.2	3.3	0.1	115.4
At 30 Jun 2016	148.9	27.2	176.1	414.8	437.1	18.5	35.7	1,082.2

For footnote, see page 108.

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RWA and Capital requirements for credit risk and information on risk exposures

Credit risk RWAs by exposure class

	Footnotes	Exposure value \$bn	RWAs \$bn	Capital required ₂ \$bn
IRB advanced approach		1,493.7	504.9	40.4
Retail:				
– secured by mortgages on immovable property SME		2.9	0.6	—
– secured by mortgages on immovable property non-SME		261.9	47.7	3.8
– qualifying revolving retail		65.3	15.1	1.2
– other SME		10.8	5.2	0.4
– other non-SME		45.2	10.7	0.9
Total retail		386.1	79.3	6.3
Central governments and central banks		350.2	50.7	4.1
Institutions		77.1	19.0	1.5
Corporates	6	589.5	321.4	25.7
Securitisation positions		37.2	21.1	1.7
Non-credit obligation assets		53.6	13.4	1.1
IRB foundation approach		46.3	28.8	2.3
Central governments and central banks		0.1	0.1	—
Institutions		0.3	0.1	—
Corporates		45.9	28.6	2.3
Standardised approach		601.3	317.6	25.4
Central governments and central banks		223.4	19.9	1.6
Institutions		34.3	13.8	1.1
Corporates		212.8	195.9	15.6
Retail		43.4	31.9	2.6
Secured by mortgages on immovable property		43.1	15.3	1.2
Exposures in default		5.0	6.4	0.5
Regional governments or local authorities		2.6	0.8	0.1
Equity	7	6.8	12.0	1.0
Items associated with particularly high risk		4.5	6.8	0.5
Securitisation positions		0.8	0.7	0.1
Claims in the form of collective investment undertakings ('CIUs')		0.5	0.5	—
Claims on institutions and corporates with a short-term credit assessment		0.1	—	—
International organisations		2.7	—	—
Multilateral development banks		0.2	—	—
Other items		21.1	13.6	1.1

At 30 Jun 2016

2,141.3

851.3

68.1

For footnotes, see page 108.

Counterparty credit risk RWAs by exposure class

	Footnotes	RWAs \$bn	Capital required ₂ \$bn
IRB advanced approach		48.1	3.8
Central governments and central banks		2.8	0.2

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Institutions		18.7	1.5
Corporates		26.6	2.1
IRB foundation approach		2.0	0.2
Corporates		2.0	0.2
Standardised approach		4.7	0.3
Institutions		0.4	—
Corporates		4.3	0.3
CVA advanced	8	3.5	0.3
CVA standardised	8	13.3	1.1
CCP standardised		2.1	0.2
At 30 Jun 2016		73.7	5.9
For footnotes, see page 108.			

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Capital (continued)

Market risk – RWAs and capital required

	RWAs Capital required ₂	
	\$bn	\$bn
Internal model based	35.8	2.8
VaR	6.9	0.6
Stressed VaR	9.6	0.7
Incremental risk charge	11.1	0.8
Other VaR and stressed VaR	8.2	0.7
Standardised approach	6.0	0.5
Interest rate position risk	2.4	0.2
Foreign exchange position risk	0.3	—
Equity position risk	1.0	0.1
Securitisation positions	2.3	0.2

At 30 Jun 2016 41.8 3.3

For footnote, see page 108.

Wholesale IRB exposure – by obligor grade⁸ – Central governments and central banks

	CRR	PD range	Exposure value	Average exposure value	Undrawn commitments	Average PD ₁₀	Average LGD ₁₀	RWA density ₁₀	RWAs	Mapped external rating
Footnotes	%	\$bn	\$bn	\$bn	\$bn	%	%	%	\$bn	
Default risk		0.000								
Minimal	0.1	to 0.010	145.8	143.6	0.7	0.01	39.9	7	10.1	AAA
	1.1	to 0.011	116.3	112.6	0.7	0.02	45.0	6	7.5	AA+ to AA
	1.2	to 0.028	38.3	39.7	0.4	0.04	45.2	14	5.4	AA- to A+
		0.029								
		0.053								
Low	2.1	to 0.054	13.1	11.5	0.1	0.07	45.0	28	3.7	A
		0.095								
	2.2	to 0.096	10.4	11.0	0.2	0.13	45.0	30	3.1	A-
		0.169								
Satisfactory	3.1	to 0.170	4.5	4.2	—	0.22	44.5	38	1.7	BBB+
		0.285								
	3.2	to 0.286	0.4	3.3	—	0.37	45.0	50	0.2	BBB
		0.483								
	3.3	to 0.483	12.5	8.8	—	0.63	45.0	70	8.7	BBB-

At 30 Jun

2016

For footnotes, see page 108.

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Wholesale IRB exposure – by obligor grade – Institutions

	Footnotes	CRR	PD range	Exposure value	Average exposure value	Undrawn commitments	Average PD ₁₀	Average LGD ₁₀	RWA density ₁₀	RWAs	Mapped external rating
		%	\$bn	\$bn	\$bn	\$bn	%	%	%	\$bn	
Default risk											
Minimal		0.1	0.000 to 0.010	0.8	1.8	0.1	0.03	45.7	13	0.1	AAA
		1.1	0.011 to 0.028	16.1	15.4	1.4	0.03	37.1	11	1.7	AA+ to AA
		1.2	0.029 to 0.053	27.5	31.3	3.8	0.04	40.8	13	3.5	AA-
Low		2.1	0.054 to 0.095	10.6	16.0	4.4	0.07	40.4	21	2.2	A+ to A
		2.2	0.096 to 0.169	11.7	10.5	3.6	0.13	37.3	26	3.1	A-
Satisfactory		3.1	0.170 to 0.285	2.0	2.7	1.5	0.22	40.9	40	0.8	BBB+
		3.2	0.286 to 0.483	2.7	3.5	0.6	0.37	46.0	59	1.6	BBB
		3.3	0.484 to 0.740	2.7	2.6	0.7	0.63	45.3	104	2.8	BBB-
Fair		4.1	0.741 to 1.022	2.2	1.2	0.7	0.87	43.7	91	2.0	BB+
		4.2	1.023 to 1.407	0.5	0.5	0.2	1.20	45.6	100	0.5	BB
		4.3	1.408 to 1.927	0.2	0.2	0.1	1.65	46.4	100	0.2	BB-
Moderate		5.1	1.928 to 2.620	0.1	0.1	0.2	2.25	48.5	100	0.1	BB-
		5.2	2.621 to 3.579	0.1	0.1	—	3.05	45.0	100	0.1	B+
		5.3		0.1	0.1	—	4.20	18.7	—	—	B

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			3.580								
			to								
			4.914								
Significant		6.1	4.915	0.1	—	—	5.75	45.5	100	0.1	B-
			to								
			6.718								
			6.719								
		6.2	to	—	—	—	—	—	—	—	B-
			8.860								
High		7.1	8.861	—	—	—	10.00	45.4	—	0.1	CCC+
			to								
			11.402								
			11.403								
		7.2	to	—	—	—	—	—	—	—	CCC+
			15.000								
Special management		8.1	15.001	—	—	—	—	—	—	—	CCC
			to								
			22.000								
			22.001								
		8.2	to	—	—	0.2	35.97	54.9	—	0.1	CCC- to CC
			50.000								
			50.001								
		8.3	to	—	—	—	—	—	—	—	C
			99.999								
Default	11	9/10	100.0	—	—	—	100.00	45.0	—	0.1	Default
At 30 Jun 2016				77.4	86.0	17.5	0.20	40.0	25	19.1	
For footnotes, see page 108.											
Wholesale IRB exposure – by obligor grade – Corporates ²											
		CRR	PD range	Exposure value	Average exposure value	Undrawn commitments	Average PD ₁₀	Average LGD ₁₀	RWA density ₁₀	RWAs	Mapped external rating
	Footnotes		%	\$bn	\$bn	\$bn	%	%	%	\$bn	
Default risk											
Minimal		0.1	0.000	—	—	—	—	—	—	—	
			to								
			0.010								
			0.011								
		1.1	to	19.4	14.8	13.8	0.03	27.5	12	2.4	AAA to AA
			0.028								
			0.029								
		1.2	to	43.2	49.5	37.2	0.04	36.8	14	6.2	AA-
			0.053								
Low		2.1	0.054	63.8	64.8	57.0	0.07	40.3	22	14.0	A+ to A
			to								

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		0.095 0.096								
	2.2	to	74.3	80.0	65.6	0.13	39.3	31	23.0	A-
		0.169								
Satisfactory	3.1	to	75.0	76.6	61.9	0.22	39.3	40	30.2	BBB+
		0.170 0.285								
	3.2	to	69.5	72.9	52.7	0.37	39.4	51	35.3	BBB
		0.286 0.483								
	3.3	to	65.6	69.4	43.9	0.63	36.3	60	39.4	BBB-
		0.484 0.740								
Fair	4.1	to	44.2	43.6	31.4	0.87	39.1	74	32.9	BB+
		0.741 1.022								
	4.2	to	33.6	35.4	22.6	1.20	39.8	85	28.3	BB
		1.023 1.407								
	4.3	to	35.0	32.5	18.4	1.65	33.7	84	29.3	BB-
		1.408 1.927								
Moderate	5.1	to	27.7	27.4	15.8	2.24	35.5	92	25.6	BB-
		1.928 2.620								
	5.2	to	12.8	12.5	8.9	3.06	36.8	106	13.6	B+
		2.621 3.579								
	5.3	to	10.7	11.4	8.2	4.14	38.4	118	12.6	B
		3.580 4.914								
Significant	6.1	to	7.6	6.8	6.8	5.73	37.8	130	9.9	B-
		4.915 6.718								
	6.2	to	4.6	3.9	2.0	7.85	37.1	146	6.7	B-
		6.719 8.860								
High	7.1	to	2.9	2.6	1.3	10.01	36.6	155	4.5	CCC+
		8.861 11.402								
	7.2	to	0.8	1.0	0.5	13.00	31.8	150	1.2	CCC+
		11.403 15.000								
Special management	8.1	15.001 to	1.8	1.2	1.2	19.00	32.6	178	3.2	CCC

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		22.000										
		22.001										
	8.2	to	0.5	0.5	0.1	35.86	34.9	200	1.0	CCC-	to	
										CC		
		50.000										
		50.001										
	8.3	to	0.3	0.3	0.1	75.00	41.4	133	0.4	C		
		99.999										
Default	11	9/10	100.0	7.9	7.4	1.2	100.00	44.3	82	6.5	Default	
At 30 Jun												
2016				601.2	614.5	450.6	2.28	37.9	54	326.2		

For footnote, see page 108.

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Capital (continued)

Retail IRB exposure – by internal PD band

	PD range	Exposure value	Average exposure value	Undrawn commitments	Average PD ₁₀	Average LGD ₁₀	RWA density ₁₀	RWAs
	%	\$bn	\$bn	\$bn	%	%	%	\$bn
At 30 Jun 2016								
Secured by mortgages on immovable property SME								
Band 1	0.000 to 0.483	0.6	0.6	—	0.16	12.7	—	—
Band 2	0.484 to 1.022	0.5	0.5	0.1	0.76	19.5	20	0.1
Band 3	1.023 to 4.914	1.2	1.3	—	2.29	19.8	25	0.3
Band 4	4.915 to 8.860	0.3	0.2	—	6.76	22.4	33	0.1
Band 5	8.861 to 15.000	0.1	0.1	—	11.02	27.8	—	—
Band 6	15.001 to 50.000	0.1	0.1	—	24.62	20.5	100	0.1
Band 7	50.001 to 100.000	0.1	0.2	—	100.00	18.7	—	—
		2.9	3.0	0.1	5.56	18.6	21	0.6
Secured by mortgages on immovable property non-SME								
Band 1	0.000 to 0.483	206.9	210.2	16.2	0.12	15.4	8	15.8
Band 2	0.484 to 1.022	22.0	23.2	1.0	0.71	21.3	26	5.7
Band 3	1.023 to 4.914	20.4	22.4	0.7	1.94	25.0	55	11.3
Band 4	4.915 to 8.860	4.3	5.3	—	5.69	28.1	116	5.0
Band 5	8.861 to 15.000	1.1	1.2	0.1	11.82	26.4	164	1.8
Band 6	15.001 to 50.000	1.9	2.2	—	25.20	46.1	300	5.7
Band 7	50.001 to 100.000	5.3	5.7	—	98.29	46.2	45	2.4
		261.9	270.2	18.0	2.63	17.8	18	47.7
Qualifying revolving retail exposures								
Band 1	0.000 to 0.483	47.4	48.4	84.5	0.12	93.3	7	3.3
Band 2		6.9	7.0	6.6	0.71	92.6	29	2.0

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	0.484 to 1.022								
Band 3	1.023 to 4.914	8.7	8.9	5.7	2.22	90.6	66	5.7	
Band 4	4.915 to 8.860	1.2	1.3	0.5	6.65	90.1	142	1.7	
Band 5	8.861 to 15.000	0.4	0.4	0.2	11.11	92.1	200	0.8	
Band 6	15.001 to 50.000	0.5	0.5	0.1	23.32	91.3	260	1.3	
Band 7	50.001 to 100.000	0.2	0.2	0.1	88.94	70.5	150	0.3	
Other SME		65.3	66.7	97.7	1.16	92.7	23	15.1	
Band 1	0.000 to 0.483	1.3	1.5	0.8	0.29	60.6	23	0.3	
Band 2	0.484 to 1.022	1.9	2.0	0.8	0.75	50.6	37	0.7	
Band 3	1.023 to 4.914	5.0	5.3	1.3	2.57	52.7	56	2.8	
Band 4	4.915 to 8.860	1.2	1.2	0.3	6.62	49.2	58	0.7	
Band 5	8.861 to 15.000	0.4	0.5	0.1	10.81	58.4	100	0.4	
Band 6	15.001 to 50.000	0.3	0.2	—	25.47	60.1	100	0.3	
Band 7	50.001 to 100.000	0.7	0.8	0.1	99.72	38.8	—	—	
Other non-SME		10.8	11.5	3.4	9.92	52.4	48	5.2	
Band 1	0.000 to 0.483	26.4	26.7	11.3	0.18	26.4	11	2.8	
Band 2	0.484 to 1.022	6.7	6.7	1.5	0.66	31.4	27	1.8	
Band 3	1.023 to 4.914	9.7	10.1	1.4	1.92	30.4	41	4.0	
Band 4	4.915 to 8.860	0.9	0.9	0.1	7.14	54.9	89	0.8	
Band 5	8.861 to 15.000	0.5	0.5	—	12.00	63.9	120	0.6	
Band 6	15.001 to 50.000	0.4	0.4	—	28.04	60.1	125	0.5	
Band 7	50.001 to 100.000	0.6	0.6	—	96.61	59.9	33	0.2	
Total retail		45.2	45.9	14.3	2.36	29.6	24	10.7	
Band 1	0.000 to 0.483	282.6	287.4	112.8	0.13	29.7	8	22.2	

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Band 2	0.484 to 1.022	38.0	39.4	10.0	0.70	37.4	27	10.3
Band 3	1.023 to 4.914	45.0	48.0	9.1	2.07	41.8	54	24.1
Band 4	4.915 to 8.860	7.9	8.9	0.9	6.18	43.8	105	8.3
Band 5	8.861 to 15.000	2.5	2.7	0.4	11.53	49.9	144	3.6
Band 6	15.001 to 50.000	3.2	3.4	0.1	25.23	55.4	247	7.9
Band 7	50.001 to 100.000	6.9	7.5	0.2	98.00	47.0	42	2.9
		386.1	397.3	133.5	2.58	32.8	21	79.3

For footnote, see page 108.

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Regulatory balance sheet

Regulatory and accounting consolidations

The basis of consolidation for the purpose of financial accounting under IFRSs, described in Note 1 on the Financial Statements, differs from that used for regulatory purposes as described below. The following table provides a reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation.

Interests in banking associates are equity accounted in the financial accounting consolidation, whereas their exposures are proportionally consolidated for regulatory purposes by including our share of assets, liabilities, profit and loss, and RWAs in accordance with the PRA's application of Capital Requirements Directive IV ('CRD IV').

Subsidiaries engaged in insurance activities are excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the investment of these insurance subsidiaries to be recorded at cost and deducted from CET1 (subject to thresholds).

The regulatory consolidation also excludes special purpose entities ('SPEs') where significant risk has been transferred to third parties. Exposures to these SPEs are risk-weighted as securitisation positions for regulatory purposes.

Entities in respect of which the basis of consolidation for financial accounting purposes differs from that used for regulatory purposes can be found in table 5 of our Pillar 3 Disclosures 2015 document.

Reconciliation of balance sheets – financial accounting to regulatory scope of consolidation

	Accounting balance sheet Ref* \$m	Deconsolidation of insurance/ other entities \$m	Consolidation of banking associates \$m	Regulatory balance sheet \$m
Assets				
Cash and balances at central banks	128,272	(1	) 26,726	154,997
Items in the course of collection from other banks	6,584	—	27	6,611
Hong Kong Government certificates of indebtedness	29,011	—	—	29,011
Trading assets	280,295	(87	) 3,049	283,257
Financial assets designated at fair value	23,901	(23,539	) —	362
Derivatives	369,942	(175	) 1,068	370,835
Loans and advances to banks	92,199	(2,894	) 15,660	104,965
Loans and advances to customers	887,556	(5,116	) 122,664	1,005,104
Of which:				
– impairment allowances on IRB portfolios	h (6,026	) —	—	(6,026)
– impairment allowances on standardised portfolios	(2,927	) —	(2,818	) (5,745)
Reverse repurchase agreements – non-trading	187,826	425	2,621	190,872
Financial investments	441,399	(54,824	) 50,181	436,756
Assets held for sale	50,305	(5,291	) —	45,014
Of which:				
– goodwill and intangible assets	e 2,027	(268) —	1,759
– impairment allowances	(2,220) —	—	(2,220)
Of which:				

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– IRB portfolios	h	(146) —	—	(146)
– standardised portfolios		(2,074) —	—	(2,074)
Capital invested in insurance and other entities		—	2,347	—	2,347	
Current tax assets		714	(26	) —	688	
Prepayments, accrued income and other assets		60,569	(2,603	) 9,560	67,526	
Of which:						
– retirement benefit assets	i	5,781	—	—	5,781	
Interests in associates and joint ventures		19,606	—	(19,014	) 592	
Of which:						
– positive goodwill on acquisition	e	574	—	(560	) 14	
Goodwill and intangible assets	e	24,053	(6,471	) 616	18,198	
Deferred tax assets	f	5,917	163	491	6,571	
Total assets at 30 Jun 2016		2,608,149	(98,092	) 213,649	2,723,706	

* The references (a) to (q) identify balance sheet components which are used in the calculation of regulatory capital on page 107.

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Capital (continued)

	Ref*	Accounting balance sheet \$m	Deconsolidation of insurance/ other entities \$m	Consolidation of banking associates \$m	Regulatory balance sheet \$m
Liabilities and equity					
Hong Kong currency notes in circulation		29,011	—	—	29,011
Deposits by banks		69,900	(44	) 48,095	117,951
Customer accounts		1,290,958	(43	) 148,867	1,439,782
Repurchase agreements – non-trading		98,342	—	—	98,342
Items in the course of transmission to other banks		7,461	—	—	7,461
Trading liabilities		188,698	700	36	189,434
Financial liabilities designated at fair value		78,882	(6,025	) —	72,857
Of which:					
– term subordinated debt included in tier 2 capital	n,q	22,049	—	—	22,049
– preferred securities included in tier 1 capital	m	420	—	—	420
Derivatives		368,414	277	1,041	369,732
Debt securities in issue		87,673	(6,560	) 6,294	87,407
Liabilities of disposal groups held for sale		43,705	(4,765	) 145	39,085
Current tax liabilities		1,569	(122	) 457	1,904
Liabilities under insurance contracts		73,416	(73,416) —	—
Accruals, deferred income and other liabilities		42,057	2,177	5,869	50,103
Of which:					
– retirement benefit liabilities		3,064	(3	) 51	3,112
Provisions		5,797	(19	) —	5,778
Of which:					
– contingent liabilities and contractual commitments		256	—	—	256
Of which:					
– credit-related provisions on IRB portfolios	h	227	—	—	227
– credit-related provisions on standardised portfolios		29	—	—	29
Deferred tax liabilities		2,300	(991	) 4	1,313
Subordinated liabilities		21,669	1	2,841	24,511
Of which:					
– preferred securities included in tier 1 capital	k,m	1,832	—	—	1,832
– perpetual subordinated debt included in tier 2 capital	o	1,968	—	—	1,968
– term subordinated debt included in tier 2 capital	n,q	17,253	—	—	17,253

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Total liabilities at 30 Jun 2016	o	2,409,852	(88,830) 213,649	2,534,671
Called up share capital	a	9,906	(1,036) —	8,870
Share premium account	a,k	12,772	(182	) —	12,590
Other equity instruments	j,k	17,110	2,972	—	20,082
Other reserves	c,g	5,759	1,245	—	7,004
Retained earnings	b,c	145,710	(11,275	) —	134,435
Total shareholders' equity		191,257	(8,276	) —	182,981
Non-controlling interests	d,l,m,p	7,040	(986	) —	6,054
Of which:					
– non-cumulative preference shares issued by subsidiaries included in tier 1 capital	m	270	—	—	270
Total equity at 30 Jun 2016		198,297	(9,262	) —	189,035
Total liabilities and equity at 30 Jun 2016		2,608,149	(98,092	) 213,649	2,723,706

* The references (a) to (q) identify balance sheet components which are used in the calculation of regulatory capital on page 107.

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Capital

Transitional own funds disclosure

Ref		At 30 Jun 2016 \$m	CRD IV prescribed residual amount \$m	Final CRD IV text \$m
*				
	Common equity tier 1 ('CET1') capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	21,273		21,273
	Of which: ordinary shares	a 21,273		21,273
2	Retained earnings	b 138,347		138,347
3	Accumulated other comprehensive income (and other reserves)	c (2,066)		(2,066)
5	Minority interests (amount allowed in consolidated CET1)	d 3,659		3,659
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	b 4,905		4,905
6	Common equity tier 1 capital before regulatory adjustments	166,118		166,118
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments	(1,507)		(1,507)
8	Intangible assets (net of related deferred tax liability)	e (20,086)		(20,086)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	f (1,475)		(1,475)
11	Fair value reserves related to gains or losses on cash flow hedges	g (408)		(408)
12	Negative amounts resulting from the calculation of expected loss amounts	h (5,073)		(5,073)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	(1,670)		(1,670)
15	Defined-benefit pension fund assets	i (4,290)		(4,290)
16	Direct and indirect holdings of own CET1 instruments	(939)		(939)
28	Total regulatory adjustments to common equity tier 1	(35,448)	—	(35,448)
29	Common equity tier 1 capital	130,670	—	130,670
	Additional tier 1 ('AT1') capital: instruments			
30	Capital instruments and the related share premium accounts	11,259	—	11,259
31	Of which: classified as equity under IFRSs	j 11,259	—	11,259
33	Amount of qualifying items and the related share premium accounts subject to phase out from AT1	k 7,946	(7,946)) —
34	Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	l,m 2,579	(2,403 )	) 176
35	Of which: instruments issued by subsidiaries subject to phase out	m 1,665	(1,665)) —
36	Additional tier 1 capital before regulatory adjustments	21,784	(10,349)) 11,435
	Additional tier 1 capital: regulatory adjustments			

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37	Direct and indirect holdings of own AT1 instruments	(60)	(60)	
41b	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period	(82)	82	—	
	Of which: direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities	(82	)	82	—
43	Total regulatory adjustments to additional tier 1 capital	(142)	82	(60)
44	Additional tier 1 capital	21,642	(10,267	)	11,375
45	Tier 1 capital (T1 = CET1 + AT1)	152,312	(10,267	)	142,045
	Tier 2 capital: instruments and provisions					
46	Capital instruments and the related share premium accounts	n	16,840		16,840	
47	Amount of qualifying items and the related share premium accounts subject to phase out from T2	o	5,695	(5,695)	—
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	p,q	12,314	(12,262)	52
49	Of which: instruments issued by subsidiaries subject to phase out	q	12,283	(12,283)	—
51	Tier 2 capital before regulatory adjustments		34,849	(17,957)	16,892

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Capital (continued)

Ref *	At Ref#0 Jun 2016 \$m	CRD IV prescribed residual amount \$m	Final CRD IV text \$m
	Tier 2 capital: regulatory adjustments		
52	(40)		(40)
55	(328)	(82)	(410)
	Direct and indirect holdings of own T2 instruments Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)		
57	(368)	(82)	(450)
58	34,481	(18,039)	16,442
59	186,793	(28,306)	158,487
60	1,082,184	—	1,082,184
	Capital ratios and buffers		
61	12.1	%	12.1 %
62	14.1	%	13.1 %
63	17.3	%	14.6 %
64	1.3	%	
	Of which:		
65	0.6	%	
66	0.1	%	
67a	0.6	%	
68	6.3	%	
	Amounts below the threshold for deduction (before risk weighting)		
72	2,940		
	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		
73	3,461		
	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		
75	7,605		
	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		
77	4,030		
	Applicable caps on the inclusion of provisions in tier 2		

	Cap on inclusion of credit risk adjustments in T2 under standardised approach	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	3,404
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	
82	Current cap on AT1 instruments subject to phase out arrangements	10,382
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	201
84	Current cap on T2 instruments subject to phase out arrangements	17,978
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	5,501

*The references identify the lines prescribed in the EBA template which are applicable and where there is a value. The references (a) to (q) identify balance sheet components on page 105 which are used in the calculation of regulatory capital.

A list of the features of our capital instruments in accordance with Annex III of Commission Implementing Regulation 1423/2013 is published on our website with reference to

our balance sheet at 30 June 2016, along with the full terms and conditions.

Footnotes to Capital

- 1 Since 1 January 2015 the CRD IV transitional CET1 and end point CET1 capital ratios have been aligned for HSBC Holdings plc.
- 2 'Capital required' represents the Pillar 1 capital charge at 8% of RWAs.
- 3 Book size now includes market risk movements previously categorised as movements in risk levels.
- 4 This includes dividends on ordinary shares, quarterly dividends on preference shares and coupons on capital securities, classified as equity.
- 5 RWAs are non-additive across geographical regions due to market risk diversification effects within the Group.
- 6 'Corporates' includes specialised lending exposures subject to a supervisory slotting approach of \$34.2bn and RWAs of \$23.8bn.
- 7 This includes investment in insurance companies which are risk weighted at 250%.
- 8 The RWA impact due to the CVA capital charge is calculated based on the exposures under the IRB and standardised approaches. No additional exposures are taken into account.
- 9 For a definition of obligor grade refer to our Capital and Risk Management Pillar 3 disclosures 2015, where a glossary of terms can be found.
- 10 Average PD, average LGD and RWA density percentages represent an exposure weighted average.
- 11 There is a requirement to hold additional capital for unexpected losses on defaulted exposures where LGD exceeds our best estimate of EL. As a result, in some cases RWAs arise for exposures in default.
- 12 Excludes specialised lending exposures subject to a supervisory slotting approach of \$34.2bn and RWAs of \$23.8bn.

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Financial Statements (unaudited)

Financial Statements

Consolidated income statement
for the half-year to 30 June 2016

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	Notes	\$m	\$m
Interest income		23,011	24,019
Interest expense		(7,251)	(7,575)
Net interest income		15,760	16,444
Fee income		8,202	9,372
Fee expense		(1,616)	(1,647)
Net fee income		6,586	7,725
Trading income excluding net interest income		4,594	3,520
Net interest income on trading activities		730	1,053
Net trading income		5,324	4,573
Changes in fair value of long-term debt issued and related derivatives		270	1,324
Net income/(expense) from other financial instruments designated at fair value		291	1,342
Net income/(expense) from financial instruments designated at fair value		561	2,666
Gains less losses from financial investments		965	1,874
Dividend income		64	68
Net insurance premium income		5,356	5,607
Other operating income		644	836
Total operating income		35,260	39,793
Net insurance claims and benefits paid and movement in liabilities to policyholders		(5,790)	(6,850)
Net operating income before loan impairment charges and other credit risk provisions		29,470	32,943
Loan impairment charges and other credit risk provisions		(2,366)	(1,439)
Net operating income		27,104	31,504
Employee compensation and benefits		(9,354)	(10,041)
General and administrative expenses		(7,467)	(8,129)
Depreciation and impairment of property, plant and equipment		(605)	(604)
Amortisation and impairment of intangible assets and goodwill		(1,202)	(413)

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Total operating expenses		(18,628)	(19,187)	(20,581)
Operating profit		8,476	12,317	3,994
Share of profit in associates and joint ventures		1,238	1,311	1,245
Profit before tax		9,714	13,628	5,239
Tax expense		(2,291)	(2,907)	(864)
Profit for the period		7,423	10,721	4,375
Profit attributable to shareholders of the parent company		6,912	9,618	3,904
Profit attributable to non-controlling interests		511	1,103	471
		\$	\$	\$
Basic earnings per ordinary share	3	0.32	0.48	0.17
Diluted earnings per ordinary share	3	0.32	0.48	0.17

The accompanying notes on pages 115 to 146 form an integral part of these financial statements¹.

For footnote, see page 114.

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Financial Statements (unaudited) (continued)

Consolidated statement of comprehensive income
for the half-year to 30 June 2016

	Half-year to		
	30 Jun	30 Jun	31
	2016	2015	Dec
	\$m	\$m	\$m
Profit for the period	7,423	10,721	4,375
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Available-for-sale investments	1,010	(2,445)	(627)
– fair value gains/(losses)	2,826	(355)	(876)
– fair value gains reclassified to the income statement	(1,228)	(2,317)	(120)
– amounts reclassified to the income statement in respect of impairment losses	24	2	125
– income taxes	(612)	225	244
Cash flow hedges	340	(150)	126
– fair value (losses)/gains	(1,796)	341	363
– fair value losses/(gains) reclassified to the income statement	2,242	(538)	(167)
– income taxes	(106)	47	(70)
Share of other comprehensive (expense)/income of associates and joint ventures	(1)	2	(11)
– share for the period	(1)	2	(11)
– reclassified to income statement on disposal	—	—	—
Exchange differences	(2,713)	(3,267)	(7,678)
– other exchange differences	(2,619)	(3,395)	(7,717)
– income tax attributable to exchange differences	(94)	128	39
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability	416	(1,680)	1,781
– before income taxes	533	(2,085)	2,215
– income taxes	(117)	405	(434)
Other comprehensive expense for the period, net of tax	(948)	(7,540)	(6,409)
Total comprehensive income/(expense) for the period	6,475	3,181	(2,034)
Attributable to:			
– shareholders of the parent company	6,010	2,856	(2,396)
– non-controlling interests	465	325	362
Total comprehensive income/(expense) for the period	6,475	3,181	(2,034)

The accompanying notes on pages 115 to 146 form an integral part of these financial statements¹.

For footnote, see page 114.

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Consolidated balance sheet
at 30 June 2016

		At	
		30 Jun	31 Dec
		2016	2015
	Notes	\$m	\$m
Assets			
Cash and balances at central banks		128,272	98,934
Items in the course of collection from other banks		6,584	5,768
Hong Kong Government certificates of indebtedness		29,011	28,410
Trading assets	5	280,295	224,837
Financial assets designated at fair value	8	23,901	23,852
Derivatives	9	369,942	288,476
Loans and advances to banks		92,199	90,401
Loans and advances to customers		887,556	924,454
Reverse repurchase agreements – non-trading		187,826	146,255
Financial investments	10	441,399	428,955
Assets held for sale	11	50,305	43,900
Prepayments, accrued income and other assets		60,569	54,398
Current tax assets		714	1,221
Interests in associates and joint ventures	13	19,606	19,139
Goodwill and intangible assets		24,053	24,605
Deferred tax assets		5,917	6,051
Total assets		2,608,149	2,409,656
Liabilities and equity			
Liabilities			
Hong Kong currency notes in circulation		29,011	28,410
Deposits by banks		69,900	54,371
Customer accounts		1,290,958	1,289,586
Repurchase agreements – non-trading		98,342	80,400
Items in the course of transmission to other banks		7,461	5,638
Trading liabilities	14	188,698	141,614
Financial liabilities designated at fair value		78,882	66,408
Derivatives	9	368,414	281,071
Debt securities in issue		87,673	88,949
Liabilities of disposal groups held for sale	11	43,705	36,840
Accruals, deferred income and other liabilities		42,057	38,116
Current tax liabilities		1,569	783
Liabilities under insurance contracts		73,416	69,938
Provisions	16	5,797	5,552
Deferred tax liabilities	17	2,300	1,760
Subordinated liabilities		21,669	22,702
Total liabilities		2,409,852	2,212,138
Equity			

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Called up share capital	9,906	9,842
Share premium account	12,772	12,421
Other equity instruments	17,110	15,112
Other reserves	5,759	7,109
Retained earnings	145,710	143,976
Total shareholders' equity	191,257	188,460
Non-controlling interests	7,040	9,058
Total equity	198,297	197,518
Total liabilities and equity	2,608,149	2,409,656

The accompanying notes on pages 115 to 146 form an integral part of these financial statements¹.

For footnote, see page 114.

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Financial Statements (unaudited) (continued)

Consolidated statement of cash flows
for the half-year to 30 June 2016

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	\$m	\$m	\$m
Cash flows from operating activities			
Profit before tax	9,714	13,628	5,239
Adjustments for:			
– net gain from investing activities	(1,034)	(1,926)	(9)
– share of profit in associates and joint ventures	(1,238)	(1,311)	(1,245)
– other non-cash items included in profit before tax	5,817	4,522	6,243
– change in operating assets	7,268	12,077	53,751
– change in operating liabilities	59,093	(15,544)	(91,218)
– elimination of exchange differences	(3,193)	3,951	14,357
– dividends received from associates	619	770	109
– contributions paid to defined benefit plans	(340)	(226)	(438)
– tax paid	(1,668)	(1,351)	(2,501)
Net cash generated from/(used in) operating activities	75,038	14,590	(15,712)
Cash flows from investing activities			
Purchase of financial investments	(233,153)	(211,669)	(226,707)
Proceeds from the sale and maturity of financial investments	216,340	208,637	190,999
Purchase of property, plant and equipment	(429)	(620)	(732)
Proceeds from the sale of property, plant and equipment	40	56	47
Net cash inflow from disposal of customer and loan portfolios	4,186	321	1,702
Net purchase of intangible assets	(395)	(400)	(554)
Net cash inflow from disposal of subsidiaries, businesses, associates and joint ventures	16	6	2
Net cash used in investing activities	(13,395)	(3,669)	(35,243)
Cash flows from financing activities			
Issue of ordinary share capital	8	9	138
Net (purchases)/sales of own shares for market-making and investment purposes	(78)	139	192
Issue of other equity instruments	1,998	2,459	1,120
Redemption of preference shares and other equity instruments	(1,825)	(462)	—
Subordinated loan capital issued	1,129	1,680	1,500
Subordinated loan capital repaid	(546)	(778)	(1,379)
Dividends paid to ordinary shareholders of the parent company	(3,729)	(1,834)	(4,714)
Dividends paid to non-controlling interests	(702)	(386)	(311)
Dividends paid to holders of other equity instruments	(556)	(428)	(522)
Net cash generated (used in)/from financing activities	(4,301)	399	(3,976)

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Net increase/(decrease) in cash and cash equivalents	57,342	11,320	(54,931)
Cash and cash equivalents at the beginning of the period	243,863	301,301	308,792
Exchange differences in respect of cash and cash equivalents	(1,452)	(3,829)	(9,998)
Cash and cash equivalents at the end of the period	299,753	308,792	243,863

The accompanying notes on pages 115 to 146 form an integral part of these financial statements¹.

For footnote, see page 114.

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Consolidated statement of changes in equity
for the half-year to 30 June 2016

	Called up share capital	Share premium	Other equity instru- ments ³	Retained earnings	Other reserves Available- for-sale fair value reserve ⁴	Cash flow hedging reserve ⁴	Foreign exchange reserve ⁴	Merger reserve	Total share-holders' equity	Non- controlling interests ⁵
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2016	9,842	12,421	15,112	143,976	(189	)34	(20,044	)27,308	188,460	9,058
Profit for the period	—	—	—	6,912	—	—	—	—	6,912	511
Other comprehensive income (net of tax)	—	—	—	451	1,024	341	(2,718	)—	(902	)(46
– available-for-sale investments	—	—	—	—	1,024	—	—	—	1,024	(14
– cash flow hedges	—	—	—	—	—	341	—	—	341	(1
– remeasurement of defined benefit asset/liability	—	—	—	452	—	—	—	—	452	(36
– share of other comprehensive income of associates & joint ventures	—	—	—	(1	)—	—	—	—	(1)—
– exchange differences	—	—	—	—	—	—	(2,718	)—	(2,718	)5
Total comprehensive income for the period	—	—	—	7,363	1,024	341	(2,718	)—	6,010	465
Shares issued under employee remuneration and share plans	32	383	—	(407	)—	—	—	—	8	—
Shares issued in lieu of dividends and amounts arising thereon	32	(32	)—	1,111	—	—	—	—	1,111	—
Dividends to shareholders	—	—	—	(6,674)—	—	—	—	(6,674)(702
Capital securities issued	—	—	1,998	—	—	—	—	—	1,998	—
	—	—	—	305	—	—	—	—	305	—

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Cost of share-based payment arrangements										
Other movements	—	—	—	36	3	—	—	—	39	(1,781)
At 30 Jun 2016	9,906	12,772	17,110	145,710	838	375	(22,762))27,308	191,257	7,040
At 1 Jan 2015	9,609	11,918	11,532	137,144	2,143	58	(9,265)	)27,308	190,447	9,531
Profit for the period	—	—	—	9,618	—	—	—	—	9,618	1,103
Other comprehensive income (net of tax)	—	—	—	(1,693)	(1,735)	(151)	(3,183)	)—	(6,762)	(778)
– available-for-sale investments	—	—	—	—	(1,735)	—	—	—	(1,735)	(710)
– cash flow hedges	—	—	—	—	—	(151)	—	—	(151)	1
– remeasurement of defined benefit asset/liability	—	—	—	(1,695)	—	—	—	—	(1,695)	15
– share of other comprehensive income of associates & joint ventures	—	—	—	2	—	—	—	—	2	—
– exchange differences	—	—	—	—	—	—	(3,183)	)—	(3,183)	(84)
Total comprehensive income for the period	—	—	—	7,925	(1,735)	(151)	(3,183)	)—	2,856	325
Shares issued under employee remuneration and share plans	31	490	—	(512)	—	—	—	—	9	—
Shares issued in lieu of dividends and amounts arising thereon	118	(118)	)—	2,242	—	—	—	—	2,242	—
Dividends to shareholders	—	—	—	(6,224)	—	—	—	—	(6,224)	(432)
Capital securities issued	—	—	2,459	—	—	—	—	—	2,459	—
Cost of share-based payment	—	—	—	444	—	—	—	—	444	—

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arrangements										
Other movements	—	—	—	189	5	—	—	—	194	(469
At 30 Jun 2015	9,758	12,290	13,991	141,208	413	(93)(12,448)27,308	192,427	8,955

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Consolidated statement of changes in equity for the half-year to 30 June 2016 (continued)

	Called up share capital		Share premium	Other equity instruments	Retained earnings	Other reserves		Foreign exchange reserve ₄	Merger reserve	Total shareholders' equity	Non-controlling interests
	Available-for-sale fair value reserve ₄	Cash flow hedging reserve ₄									
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jul 2015	9,758	12,290	13,991	141,208	413	(93	(12,448	)27,308	192,427	8,955
Profit for the period	—	—	—	3,904	—	—	—	—	3,904	471	
Other comprehensive income (net of tax)	—	—	—	1,766	(597	)127	(7,596	)—	(6,300	(109
– available-for-sale investments	—	—	—	—	(597	)—	—	—	(597	(30
– cash flow hedges	—	—	—	—	—	127	—	—	127	(1	
– remeasurement of defined benefit asset/liability	—	—	—	1,777	—	—	—	—	1,777	4	
– share of other comprehensive income of associates & joint ventures	—	—	—	(11	)—	—	—	—	(11)—	
– exchange differences	—	—	—	—	—	—	(7,596	)—	(7,596	(82
Total comprehensive income for the period	—	—	—	5,670	(597	)127	(7,596	)—	(2,396	)362
Shares issued under employee remuneration and share plans	14	201	—	(77	)—	—	—	—	138	—
Shares issued in lieu of dividends and amounts arising thereon	70	(70	)—	920	—	—	—	—	920	—
Dividends to shareholders	—	—	—	(4,436	)—	—	—	—	(4,436	(265
Capital securities issued	—	—	1,121	—	—	—	—	—	1,121	—	
Cost of share-based payment	—	—	—	313	—	—	—	—	313	—	

arrangements

Other movements — — — 378 (5)— — — 373 6

At 31 Dec 2015 9,842 12,421 15,112 143,976 (189)34 (20,044)27,308 188,460 9,058

The accompanying notes on pages 115 to 146 form an integral part of these financial statements¹.

Footnotes to financial statements

The tables ‘Gross loans and advances to customers by industry sector and by geographical region’ (see page 68) and 1 ‘Movement in impairment allowances on loans and advances to customers and banks’ (see page 73) also form an integral part of these financial statements.

² Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.

³ During June 2016, HSBC Holdings issued \$2,000m of perpetual subordinated contingent convertible capital securities, after issuance costs of \$6m and tax benefits of \$4m, which are classified as equity under IFRSs.

At 30 June 2016, our operations in Brazil were classified as held for sale (see Note 11). The cumulative amounts of other reserves attributable to these operations were as follows: available-for-sale fair value reserve debit of \$33m (30 June 2015: \$65m debit; 31 December 2015: \$176m debit), nil cash flow hedging reserve (30 June 2015: \$29m debit; 31 December 2015: \$34m credit) and foreign exchange reserve debit of \$1.9bn (30 June 2015: \$1.7bn debit; 31 December 2015: \$2.6bn debit).

During the period HSBC USA Inc. and HSBC Finance Corporation redeemed all outstanding preferred securities at 31 December 2015 (\$1,825m). Refer to Note 34 on pages 436 and 437 of the Annual Report and Accounts 2015 for further details of all preferred securities outstanding at 31 December 2015.

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Notes on the Financial Statements (unaudited)

Notes on the Financial Statements

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1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of HSBC have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. These financial statements should be read in conjunction with the Annual Report and Accounts 2015.

At 30 June 2016, there were no unendorsed standards effective for the half-year to 30 June 2016 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

Standards applied during the half-year to 30 June 2016

There were no new standards applied during the half-year to 30 June 2016. During the period, HSBC applied a number of interpretations and amendments to standards which had an insignificant effect on these financial statements.

(b) Use of estimates and judgements

Management believes that HSBC's critical accounting estimates and judgements are those which relate to impairment of loans and advances, goodwill impairment, the valuation of financial instruments, deferred tax assets, provisions for liabilities and interests in associates. There was no change in the current period to the critical accounting estimates and judgements applied in 2015, which are stated on pages 64 and 353 of the Annual Report and Accounts 2015.

(c) Composition of Group

There were no material changes in the composition of the HSBC Group in the half-year to 30 June 2016.

(d) Future accounting developments

Information on future accounting developments and their potential effect on the financial statements of HSBC are provided on pages 347 to 352 of the Annual Report and Accounts 2015. The IFRS 9 'Financial Instruments' Programme's focus continues to be on developing the impairment models and processes which are needed for the parallel run during 2017 in accordance with the project plan and finalising implementation of the more complex requirements. Until sufficient models have been developed and tested, we will not have a reliable understanding of the potential impact on the financial statements and any consequential effects on regulatory capital requirements.

(e) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

(f) Accounting policies

The accounting policies applied by HSBC for these interim condensed consolidated financial statements are consistent with those described on pages 347 to 469 of the Annual Report and Accounts 2015, as are the methods of computation.

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Notes on the Financial Statements (unaudited) (continued)

2 Dividends

On 3 August 2016, the Directors declared a second interim dividend of \$0.10 per ordinary share, in respect of the financial year ending 31 December 2016, a distribution of approximately \$1,992m which will be payable on 28 September 2016. No liability is recognised in the financial statements in respect of this dividend.

Dividends paid to shareholders of HSBC Holdings plc

	Half-year to 30 Jun 2016			30 Jun 2015			31 Dec 2015		
	Per share \$	Total \$m	Settled in scrip \$m	Per share \$	Total \$m	Settled in scrip \$m	Per share \$	Total \$m	Settled in scrip \$m
Dividends paid on ordinary shares									
In respect of previous year:									
– fourth interim dividend	0.21	4,137	408	0.20	3,845	2,011	—	—	—
In respect of current year:									
– first interim dividend	0.10	1,981	703	0.10	1,951	231	—	—	—
– second interim dividend	—	—	—	—	—	—	0.10	1,956	160
– third interim dividend	—	—	—	—	—	—	0.10	1,958	760
Total	0.31	6,118	1,111	0.30	5,796	2,242	0.20	3,914	920
Total dividends on preference shares classified as equity (paid quarterly)	31.00	45		31.00	45		31.00	45	

Total coupons on capital securities classified as equity

	Footnotes	First call date	Per security	Half-year to		
				30 Jun 2016 Total \$m	30 Jun 2015 Total \$m	31 Dec 2015 Total \$m
Perpetual subordinated capital securities	1					
– \$2,200m		Apr 2013	\$2.032	89	89	90
– \$3,800m		Dec 2015	\$2.000	152	152	152
Perpetual subordinated contingent convertible securities	2					
– \$2,250m		Sep 2024	\$63.750	72	72	71
– \$1,500m		Jan 2020	\$56.250	42	28	42
– €1,500m		Sep 2022	€52.500	44	42	44
– \$2,450m		Mar 2025	\$63.750	78	—	78
– €1,000m		Sep 2023	€60.000	34	—	—
Total				511	383	477

¹ Discretionary coupons are paid quarterly on the perpetual subordinated capital securities, in denominations of \$25 per security.

² Discretionary coupons are paid semi-annually on the perpetual subordinated contingent convertible securities, in denominations of 1,000 per security.

On 15 July 2016, HSBC paid a further coupon on the \$2,200m subordinated capital securities of \$0.508 per security, representing a total distribution of \$45m. On 18 July 2016, HSBC paid a further coupon on the \$1,500m subordinated contingent convertible securities, representing a total distribution of \$42m. No liability is recognised in the financial statements in respect of these coupon payments.

In June 2016, HSBC issued \$2,000m of contingent convertible securities issued at 6.875% which are classified as equity under IFRSs. Discretionary coupons are paid semi-annually on these contingent convertible securities and none were declared in 1H16.

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3 Earnings per share

Profit attributable to ordinary shareholders of the parent company

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2016	2015	2015
	\$m	\$m	\$m
Profit attributable to shareholders of the parent company	6,912	9,618	3,904
Dividend payable on preference shares classified as equity	(45)	(45)	(45)
Coupon payable on capital securities classified as equity	(511)	(383)	(477)
Profit attributable to ordinary shareholders of the parent company	6,356	9,190	3,382

Basic and diluted earnings per share

	Half-year to 30 Jun 2016			Half-year to 30 Jun 2015			Half-year to 31 Dec 2015			
	Profit	Number of shares	Amount per share	Profit	Number of shares	Amount per share	Profit	Number of shares	Amount per share	
Footnotes	\$m	(millions)	\$	\$m	(millions)	\$	\$m	(millions)	\$	
Basic	1	6,356	19,672	0.32	9,190	19,249	0.48	3,382	19,380	0.17
Effect of dilutive potential ordinary shares		68		68		137				
Diluted	1	6,356	19,740	0.32	9,190	19,317	0.48	3,382	19,517	0.17

1 Weighted average number of ordinary shares outstanding (basic) or assuming dilution (diluted).

4 Segmental analysis

HSBC operates a matrix management structure which includes geographical regions and global businesses. HSBC considers that geographical operating segments represent the most appropriate information for users of the financial statements to best evaluate the nature and financial effects of HSBC's business activities and the economic environment in which it operates. HSBC's operating segments are Europe, Asia, Middle East and North Africa, North America, and Latin America.

	Footnotes	Europe	Asia	MENA	North America	Latin America	Intra-HSBC items	Total
		\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net operating income	1							
Half-year to 30 Jun 2016								
Net operating income		11,122	11,752	1,334	3,952	2,925	(1,615)	29,470
– external		10,602	10,795	1,340	3,778	2,955	—	29,470
– inter-segment		520	957	(6)	174	(30)	(1,615)	—
Half-year to 30 Jun 2015								
Net operating income		11,469	14,065	1,289	4,126	3,558	(1,564)	32,943
– external		10,974	13,148	1,279	3,979	3,563	—	32,943
– inter-segment		495	917	10	147	(5)	(1,564)	—
Half-year to 31 Dec 2015								
Net operating income		9,589	11,238	1,276	3,531	3,034	(1,811)	26,857
– external		8,804	10,329	1,280	3,407	3,037	—	26,857

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– inter-segment	785	909	(4) 124	(3) (1,811) —
Profit/(loss) before tax	2						
Half-year to:							
30 Jun 2016	1,579	7,155	985	50	(55) —	9,714
30 Jun 2015	2,205	9,400	901	690	432	—	13,628
31 Dec 2015	(1,562) 6,363	636	(76) (122) —	5,239

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Notes on the Financial Statements (unaudited) (continued)

	Europe	Asia	MENA	North America	Latin America	Intra-HSBC items	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Balance sheet information							
At 30 Jun 2016							
Total assets	1,251,513	946,998	58,802	438,658	93,067	(180,889)	) 2,608,149
Total liabilities	1,193,445	866,283	49,171	399,682	82,160	(180,889)	) 2,409,852
At 31 Dec 2015							
Total assets	1,129,365	889,747	59,236	393,960	86,262	(148,914)	) 2,409,656
Total liabilities	1,067,127	813,466	49,126	355,506	75,827	(148,914)	) 2,212,138

¹ Net operating income before loan impairment charges and other credit risk provisions.

² During the period the Group recognised an impairment of \$800m relating to the goodwill of Global Private Banking – Europe. Further details are set out in Note 20.

5 Trading assets

		At	
		30 Jun 2016	31 Dec 2015
	Footnotes	\$m	\$m
Treasury and other eligible bills		20,141	7,829
Debt securities		111,201	99,038
Equity securities		49,757	66,491
Trading securities at fair value		181,099	173,358
Loans and advances to banks	1	42,696	22,303
Loans and advances to customers	1	56,500	29,176
		280,295	224,837

¹ Loans and advances to banks and customers include settlement accounts, stock borrowing, reverse repos and other amounts.

Trading securities valued at fair value¹

		At	
		30 Jun 2016	31 Dec 2015
	Footnotes	\$m	\$m
US Treasury and US Government agencies	2	21,049	14,833
UK Government		11,681	10,177
Hong Kong Government		10,757	6,495
Other government		62,105	48,567
Asset-backed securities	3	2,774	3,135
Corporate debt and other securities		22,976	23,660
Equity securities		49,757	66,491
		181,099	173,358

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Included within these figures are debt securities issued by banks and other financial institutions of \$14,873m (31 December 2015: \$16,403m), of which \$1,058m (31 December 2015: \$1,034m) is guaranteed by various governments.

²Includes securities that are supported by an explicit guarantee issued by the US Government.

³Excludes asset-backed securities included under US Treasury and US Government agencies.

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6 Fair values of financial instruments carried at fair value

The accounting policies, control framework and the hierarchy used to determine fair values at 30 June 2016 are consistent with those applied for the Annual Report and Accounts 2015.

Financial instruments carried at fair value and bases of valuation

	Valuation techniques			Total
	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	
	\$m	\$m	\$m	\$m
Recurring fair value measurements				
At 30 Jun 2016				
Assets				
Trading assets	140,031	133,762	6,502	280,295
Financial assets designated at fair value	18,915	4,426	560	23,901
Derivatives	2,229	364,564	3,149	369,942
Financial investments: available for sale	274,115	118,184	3,945	396,244
Liabilities				
Trading liabilities	49,850	134,201	4,647	188,698
Financial liabilities designated at fair value	4,472	74,375	35	78,882
Derivatives	2,992	363,260	2,162	368,414
At 31 Dec 2015				
Assets				
Trading assets	133,095	84,886	6,856	224,837
Financial assets designated at fair value	18,947	4,431	474	23,852
Derivatives	1,922	284,292	2,262	288,476
Financial investments: available for sale	262,929	117,197	4,727	384,853
Liabilities				
Trading liabilities	41,462	95,867	4,285	141,614
Financial liabilities designated at fair value	5,260	61,145	3	66,408
Derivatives	2,243	277,618	1,210	281,071

The increase in Level 2 trading assets and liabilities reflects an increase in settlement balances and cash collateral. The increase in Level 2 derivative assets and liabilities is driven by significant yield curve movements.

Transfers between Level 1 and Level 2 fair values

	Assets			Derivatives	Liabilities		
	Available for sale	Held for trading	Designated at fair value through profit or loss		Held for trading	Designated at fair value through profit or loss	Derivatives
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 30 Jun 2016							
Transfers from							
Level 1 to Level 2	162	1,614	122	—	2,699	—	—
Transfers from Level 2 to Level 1	1,314	—	—	—	341	—	—

1

At 31 Dec 2015

Transfers from

Level 1 to Level 2	—	67	—	56	1,563	857	100
--------------------	---	----	---	----	-------	-----	-----

2

Transfers from

Level 2 to Level 1	—	487	—	2	515	2	—
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1

Fair value adjustments

Fair value adjustments are adopted when HSBC considers that there are additional factors that would be considered by a market participant that are not incorporated within the valuation model. HSBC classifies fair value adjustments as either 'risk related' or 'model-related'. The majority of these adjustments relate to GB&M. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

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Notes on the Financial Statements (unaudited) (continued)

Global Banking and Markets fair value adjustments

Type of adjustment	At	
	30 Jun 2016 \$m	31 Dec 2015 \$m
Risk-related	1,456	1,402
– bid-offer	495	477
– uncertainty	64	95
– credit valuation adjustment	901	853
– debit valuation adjustment	(600)	(465)
– funding fair value adjustment	593	442
– other	3	—
Model-related	(196)	97
– model limitation	(196)	92
– other	—	5
Inception profit (Day 1 P&L reserves) ¹	84	97
	1,344	1,596

¹ See Note 9 on the Financial Statements on page 128.

Fair value adjustments declined by \$252m during 1H16. The most significant movement was a decline of \$288m in respect of a model limitation adjustment relating to derivative discounting assumptions. This was driven by a tightening of the major currency spreads during the period.

A description of HSBC's risk-related and model-related adjustments is provided on pages 381 and 382 of the Annual Report and Accounts 2015.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets					Liabilities			
	Available for sale	Held for trading	At fair value ₁	Deriv-atives	Total	Held for trading	At fair value ₁	Deriv-atives	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Private equity including strategic investments	2,933	79	544	—	3,556	49	—	—	49
Asset-backed securities	782	719	—	—	1,501	—	—	—	—
Loans held for securitisation	—	30	—	—	30	—	—	—	—
Structured notes	—	4	—	—	4	4,596	—	—	4,596
Derivatives with monolines	—	—	—	223	223	—	—	—	—
Other derivatives	—	—	—	2,926	2,926	—	—	2,162	2,162
Other portfolios	230	5,670	16	—	5,916	2	35	—	37
At 30 Jun 2016	3,945	6,502	560	3,149	14,156	4,647	35	2,162	6,844

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Private equity including strategic investments	3,443	55	453	—	3,951	35	—	—	35
Asset-backed securities	1,053	531	—	—	1,584	—	—	—	—
Loans held for securitisation	—	30	—	—	30	—	—	—	—
Structured notes	—	4	—	—	4	4,250	—	—	4,250
Derivatives with monolines	—	—	—	196	196	—	—	—	—
Other derivatives	—	—	—	2,066	2,066	—	—	1,210	1,210
Other portfolios	231	6,236	21	—	6,488	—	3	—	3
At 31 Dec 2015	4,727	6,856	474	2,262	14,319	4,285	3	1,210	5,498

1 Designated at fair value through profit or loss.

The basis for determining the fair value of the financial instruments in the table above is explained on page 382 of the Annual Report and Accounts 2015.

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Movement in Level 3 financial instruments

	Assets				Liabilities			
	Available for sale	Held for trading	Designated at fair value through profit or loss	Derivatives	Held for trading	Designated at fair value through profit or loss	Derivatives	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
At 1 Jan 2016	4,727	6,856	474	2,262	4,285	3	1,210	
Total gains/(losses) recognised in profit or loss	37	136	23	1,188	294	—	1,071	
– trading income/(expense) excluding net interest income	—	136	—	1,188	294	—	1,071	
– net income/(expense) from other financial instruments designated at fair value	—	—	23	—	—	—	—	
– gains less losses from financial investments	(28) —	—	—	—	—	—	
– loan impairment charges and other credit risk provisions	65	—	—	—	—	—	—	
Total gains/(losses) recognised in other comprehensive income	132	(309) 1	(200) (86) —	(151)
– available-for-sale investments: fair value gains	238	—	—	—	—	—	—	
– cash flow hedges: fair value gains/(losses)	—	—	—	—	—	—	—	
– exchange differences	(106) (309) 1	(200) (86) —	(151)
Purchases	160	187	84	—	—	—	—	
New issuances	—	—	—	—	1,318	—	—	
Sales	(810	) (1,176	) (3	) —	(16	) (1) —	
Settlements	(88) (24) (18) —	(660) —	(186)
Transfers out	(572) (36) (1) (105) (504) —	(107)
Transfers in	359	868	—	4	16	33	325	
At 30 Jun 2016	3,945	6,502	560	3,149	4,647	35	2,162	
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2016	65	27	20	1,090	212	—	65	

– trading income/(expense) excluding net interest income	—	27	—	1,090	212	—	65
– net income/(expense) from other financial instruments designated at fair value	—	—	20	—	—	—	—
– loan impairment recoveries and other credit risk provisions	65	—	—	—	—	—	—

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Notes on the Financial Statements (unaudited) (continued)

	Footnotes	Assets			Liabilities				
		Available for sale	Held for trading	Designated at fair value through profit or loss	Derivatives	Held for trading	Designated at fair value through profit or loss	Derivatives	
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	
At 1 Jan 2015		4,988	6,468	726	2,924	6,139	—	1,907	
Total gains/(losses) recognised in profit or loss		(17	) (14	) (19	) 344	(223	) (1	) (467)
– trading income/(expense) excluding net interest income		—	(14	) —	344	(223	) —	(467)
– net income/(expense) from other financial instruments designated at fair value		—	—	(19	) —	—	(1) —	
– gains less losses from financial investments		(29) —	—	—	—	—	—	
– loan impairment charges and other credit risk provisions		12	—	—	—	—	—	—	
Total gains/(losses) recognised in other comprehensive income	1	72	(6	) (9	) 5	(20	) (1	) 1	
– available-for-sale investments: fair value gains		70	—	—	—	—	—	—	
– cash flow hedges: fair value gains		—	—	—	—	—	—	—	
– exchange differences		2	(6	) (9	) 5	(20	) (1	) 1	
Purchases		342	435	165	—	—	9	—	
New issuances		—	—	—	—	863	—	—	
Sales		(420	) (1,134	) (46	) —	(10	) (2) —	
Settlements		(15	) (90	) (72	) 43	(681	) —	41	
Transfers out		(1,257) (31) (272) (312) (889) —	(52)
Transfers in		314	112	—	64	126	—	13	
At 30 Jun 2015		4,007	5,740	473	3,068	5,305	5	1,443	

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Movement in Level 3 financial instruments (continued)

	Assets				Liabilities			
	Available for sale	Held for trading	Designated at fair value through profit or loss	Derivatives	Held for trading	Designated at fair value through profit or loss	Derivatives	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2015	13	(6	) 17	444	(24	) (1	) (459)
– trading income/(expense) excluding net interest income	—	(6	) —	444	(24	) —	(459)
– net income/(expense) from other financial instruments designated at fair value	—	—	17	—	—	(1) —	
– loan impairment recoveries and other credit risk provisions	13	—	—	—	—	—	—	
At 1 Jul 2015	4,007	5,740	473	3,068	5,305	5	1,443	
Total gains/(losses) recognised in profit or loss	(17	) 123	49	(249	) (350	) —	258	
– trading income/(expense) excluding net interest income	—	123	—	(249	) (350	) —	258	
– net income/(expense) from other financial instruments designated at fair value	—	—	—	—	—	—	—	
– gains less losses from financial investments	(240	) —	49	—	—	—	—	
– loan impairment charges and other credit risk provisions	223	—	—	—	—	—	—	
Total gains recognised in other comprehensive income ¹	154	(186	) (2	) (131	) (98	) —	(65)
– available-for-sale investments: fair value gains	323	—	—	—	—	—	—	
– cash flow hedges: fair value gains	—	—	—	(4) —	—	—	
– exchange differences	(169	) (186	) (2	) (127	) (98	) —	(65)
Purchases	252	1,310	85	—	2	—	—	
New issuances	—	—	—	—	608	—	—	
Sales	(337	) (72	) (4	) —	(56	) (2) —	
Settlements	(17) (56) (63) (81) (579) —	(282)
Transfers out	(214) (175) (64) (703) (854) —	(231)
Transfers in	899	172	—	358	307	—	87	

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At 31 Dec 2015	4,727	6,856	474	2,262	4,285	3	1,210
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2015	222	(3) (5) (355) 408	—	726
– trading income/(expense) excluding net interest income	—	(3	) —	(355	) 408	—	726
– net income/(expense) from other financial instruments designated at fair value	—	—	(5) —	—	—	—
– loan impairment recoveries and other credit risk provisions	222	—	—	—	—	—	—

¹ Included in ‘Available-for-sale investments: fair value gains/(losses)’ and ‘Exchange differences’ in the consolidated statement of comprehensive income.

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period. Movements in available-for-sale assets are mainly driven by sales of private equity investments and the transfer out of Level 3 of legacy credit assets following greater price certainty. Sales in trading assets reflect sell-down of syndicated loans.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The following table shows the sensitivity of Level 3 fair values to reasonably possible alternative assumptions:

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Notes on the Financial Statements (unaudited) (continued)

Sensitivity of fair values to reasonably possible alternative assumptions

	Footnotes	Reflected in profit or loss		Reflected in other comprehensive income	
		Favourable changes \$m	Unfavourable changes \$m	Favourable changes \$m	Unfavourable changes \$m
Derivatives, trading assets and trading liabilities	1	229	(257) —	—
Financial assets and liabilities designated at fair value		28	(28) —	—
Financial investments: available for sale		43	(33	) 193	(207
At 30 Jun 2016		300	(318	) 193	(207
Derivatives, trading assets and trading liabilities	1	255	(274) —	—
Financial assets and liabilities designated at fair value		41	(42) —	—
Financial investments: available for sale		33	(30	) 222	(217
At 30 Jun 2015		329	(346	) 222	(217
Derivatives, trading assets and trading liabilities	1	335	(215) —	—
Financial assets and liabilities designated at fair value		24	(24) —	—
Financial investments: available for sale		35	(30	) 230	(243
At 31 Dec 2015		394	(269	) 230	(243

¹ Derivatives, 'trading assets and trading liabilities' are presented as one category to reflect the manner in which these financial instruments are risk managed.

The reduction in the effect of both favourable and unfavourable changes during the period reflects funding spread widening and increased pricing certainty, in particular in private equity.

Sensitivity of fair values to reasonably possible alternative assumptions by Level 3 instrument type

		Reflected in profit or loss		Reflected in other comprehensive income	
		Favourable changes \$m	Unfavourable changes \$m	Favourable changes \$m	Unfavourable changes \$m
Private equity including strategic investments	63	(63	) 121	(140)
Asset-backed securities	26	(13	) 54	(49)
Loans held for securitisation	1	(1) —	—	
Structured notes	12	(9) —	—	
Derivatives with monolines	7	(7) —	—	
Other derivatives	132	(164) —	—	
Other portfolios	59	(61) 18	(18)

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At 30 Jun 2016	300	(318) 193	(207)
Private equity including strategic investments	79	(79) 171	(171)
Asset-backed securities	31	(9	) 29	(24)
Loans held for securitisation	1	(1) —	—	
Structured notes	19	(14) —	—	
Derivatives with monolines	9	(9) —	—	
Other derivatives	117	(198) —	—	
Other portfolios	73	(36	) 22	(22)
At 30 Jun 2015	329	(346	) 222	(217)
Private equity including strategic investments	54	(53	) 152	(171)
Asset-backed securities	18	(12	) 57	(51)
Loans held for securitisation	1	(1) —	—	
Structured notes	15	(11) —	—	
Derivatives with monolines	11	(11) —	—	
Other derivatives	179	(87) —	—	
Other portfolios	116	(94	) 21	(21)
At 31 Dec 2015	394	(269	) 230	(243)

Favourable and unfavourable changes are determined on the basis of sensitivity analysis. The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, the availability and reliability of observable proxies and historical data. When the available data are not amenable to statistical analysis, the quantification of uncertainty is judgemental, but remains guided by the 95% confidence interval.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

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Key unobservable inputs to Level 3 financial instruments and inter-relationships

The table below lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2016. The core range of inputs is the estimated range within which 90% of the inputs fall.

There has been no change to the key unobservable inputs to Level 3 financial instruments and inter-relationships therein which are detailed on page 389 of the Annual Report and Accounts 2015.

Quantitative information about significant unobservable inputs in Level 3 valuations

	Footnotes	Fair value		Valuation technique	Key unobservable inputs	Full range of inputs		Core range of inputs	
		Assets \$m	Liabilities \$m			Lower	Higher	Lower	Higher
Private equity including strategic investments		3,556	49	See notes ³	See notes ³	n/a	n/a	n/a	n/a
Asset-backed securities		1,501	—						
– CLO/CDO	1	371	—	Market proxy	Prepayment rate	2	% 7	% 2	% 7
				Market proxy	Bid quotes	0	99	19	89
– other ABSs		1,130	—	Market proxy	Bid quotes	0	99	50	88
Loans held for securitisation		30	—						
Structured notes		4	4,596						
– equity-linked notes		—	4,042	Model – option model	Equity volatility	12	% 83	% 18	% 35
				Model – option model	Equity correlation	35	% 94	% 46	% 83
– fund-linked notes		—	14	Model – option model	Fund volatility	7	% 11	% 7	% 11
– FX-linked notes		—	149	Model – option model	FX volatility	4	% 30	% 7	% 19
– other		4	391						
Derivatives with monolines		223	—	Model – discounted cash flow	Credit spread	3	% 3	% 3	% 3
Other derivatives		2,926	2,162						
Interest rate derivatives:									
– securitisation swaps		399	981	Model – discounted cash flow	Prepayment rate	0.5	% 90	% 21	% 74
– long-dated swaptions		1,886	120	Model – option model	IR volatility	5	% 209	% 16	% 36%

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– other	208	60							
FX derivatives:									
– FX options	212	188	Model – option model	FX volatility	0.5	% 30	% 7	% 14	%
– other	5	2							
Equity derivatives:									
– long-dated single stock options	134	178	Model – option model	Equity volatility	10	% 97	% 18	% 36	%
– other	47	306							
Credit derivatives:									
– other	35	327							
Other portfolios									
– structured certificates	5,916	37	Model – discounted cash flow	Credit volatility	2	% 4	% 2	% 4	%
– EM corporate debt	4,440	—							
Other	2	1,004	Market proxy	Bid quotes	99	127	110	126	

At 30 Jun 2016 14,156 6,844

1 Collateralised loan obligation/collateralised debt obligation.

2 'Other' includes a range of smaller asset holdings.

3 See notes on page 389 of the Annual Report and Accounts 2015.

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Notes on the Financial Statements (unaudited) (continued)

Quantitative information about significant unobservable inputs in Level 3 valuations (continued)

	Footnotes	Fair value		Valuation technique	Key unobservable inputs	Full range of inputs		Core range of inputs		
		Assets \$m	Liabilities \$m			Lower	Higher	Lower	Higher	
Private equity including strategic investments		3,951	35	See notes ³	See notes ³	n/a	n/a	n/a	n/a	
Asset-backed securities		1,584	—							
– CLO/CDO	1	511	—	Market proxy	Prepayment rate	1	% 6	% 1	% 6	%
			—	Market proxy	Bid quotes	3	147	54	117	
– other ABSs		1,073	—	Market proxy	Bid quotes					
Loans held for securitisation		30	—							
Structured notes		4	4,250							
– equity-linked notes		—	3,719	Model – option model	Equity volatility	12	% 72	% 19	% 43	%
				Model – option model	Equity correlation	35	% 93	% 43	% 79	%
– fund-linked notes		—	13	Model – option model	Fund volatility	6	% 8	% 6	% 8	%
– FX-linked notes		—	166	Model – option model	FX volatility	5	% 35	% 5	% 20	%
– other		4	352							
Derivatives with monolines		196	—	Model – discounted cash flow	Credit spread	4	% 4	% 4	% 4	%
Other derivatives		2,066	1,210							
Interest rate derivatives:										
– securitisation swaps		250	455	Model – discounted cash flow	Prepayment rate	0	% 90	% 14	% 71	%
– long-dated swaptions		1,237	119	Model – option model	IR volatility	3	% 66	% 20	% 41	%
– other		176	65							

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FX derivatives:									
– FX options	180	186	Model – option model	FX volatility	0.5	% 35	% 5	% 14	%
– other	10	5							
Equity derivatives:									
– long-dated single stock options	135	191	Model – option model	Equity volatility	8	% 104	% 18	% 44	%
– other	39	170							
Credit derivatives:									
– other	39	19							
Other portfolios									
– structured certificates	6,488	3	Model – discounted cash flow	Credit volatility	2	% 4	% 2	% 4	%
– EM corporate debt	210	—	Market proxy	Bid quotes	70	124	100	123	
Other	2	1,844	3						

At 31 Dec 2015 14,319 5,498

1 Collateralised loan obligation/collateralised debt obligation.

2 'Other' includes a range of smaller asset holdings.

3 See notes on page 389 of the Annual Report and Accounts 2015.

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7 Fair values of financial instruments not carried at fair value

The basis for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue, subordinated liabilities and non-trading repurchase and reverse repurchase agreements is explained on pages 391 and 392 of the Annual Report and Accounts 2015.

Fair values of financial instruments which are not carried at fair value on the balance sheet

	At 30 Jun 2016		At 31 Dec 2015	
	Carrying amount	Fair value	Carrying Amount	Fair value
	\$m	\$m	\$m	\$m
Assets				
Loans and advances to banks	92,199	92,131	90,401	90,411
Loans and advances to customers	887,556	886,637	924,454	922,469
Reverse repurchase agreements – non-trading	187,826	187,869	146,255	146,266
Financial investments: debt securities	45,155	47,744	44,102	45,258
Liabilities				
Deposits by banks	69,900	69,907	54,371	54,371
Customer accounts	1,290,958	1,292,378	1,289,586	1,289,789
Repurchase agreements – non-trading	98,342	98,344	80,400	80,400
Debt securities in issue	87,673	87,892	88,949	89,023
Subordinated liabilities	21,669	23,455	22,702	24,993

Other financial instruments not carried at fair value are typically short-term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value.

8 Financial assets designated at fair value

	At	
	30 Jun 2016	31 Dec 2015
	\$m	\$m
Treasury and other eligible bills	278	396
Debt securities	4,390	4,341
Equity securities	19,120	18,995
Securities designated at fair value	23,788	23,732
Loans and advances to banks and customers	113	120
	23,901	23,852

Securities designated at fair value¹

	At	
	30 Jun 2016	31 Dec 2015
	\$m	\$m
US Treasury and US Government agencies	7	145
UK Government	95	103
Hong Kong Government	28	33
Other government	1,084	1,020
Asset-backed securities	36	25
Corporate debt and other securities	3,418	3,411
Equity securities	19,120	18,995

23,788 23,732

¹Included within these figures are debt securities issued by banks and other financial institutions of \$1,680m (31 December 2015: \$1,536m), of which \$29m (31 December 2015: \$35m) are guaranteed by various governments.

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Notes on the Financial Statements (unaudited) (continued)

9 Derivatives

Fair values of derivatives by product contract type held by HSBC

	Assets			Liabilities		
	Trading	Hedging	Total	Trading	Hedging	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Foreign exchange	116,357	614	116,971	118,450	2,359	